

The complaint

Mrs W is unhappy about the way NewDay Ltd handled her credit card account.

What happened

Mrs W held a credit card account provided by NewDay. In July 2020 NewDay sent a persistent debt letter to Mrs W advising her that over the last 18 months she had paid more in interest, fee and charges than she had paid towards the amount borrowed. The letter stated that if the situation remained the same after 36 months NewDay would be required to freeze the account under FCA guidelines.

In April 2021 NewDay sent another letter to Mrs W stating that the account remained in persistent debt and recommended options to her to avoid the account being frozen.

Mrs W wrote to NewDay in April 2021 and offered to increase her payments from £124 per month to £150 per month. She asked NewDay to freeze her card so she couldn't use it. Mrs W also asked NewDay to freeze interest on the account and for the account to be closed once she had cleared the balance.

In May 2021 NewDay sent Mrs W an income and expenditure form. It advised Mrs W that the account was in arrears and said it had placed a 30 day freeze on it.

Mrs W's complained to NewDay. She said she wasn't in arrears. In response, NewDay said it had placed the account on hold for 30 days to allow Mrs W time to complete the income and expenditure form, so that it could make sure that her increased offer was affordable. NewDay advised Mrs W that there were no arrears on her account and apologised for any confusion caused by its previous letter. It paid compensation of £60 to Mrs W.

Mrs W was unhappy with the response because it didn't deal with her offer to increase her monthly payment. She brought her complaint to this service.

Our investigator upheld the complaint. He said that although NewDay hadn't done anything wrong by following the persistent debt process and requesting details of Mrs W's income and expenditure, he thought that NewDay could've done more to clarify why it needed the information it had requested. The investigator recommended that NewDay paid further compensation of £140.

NewDay didn't agree. It said that whilst it acknowledged that it could've explained more clearly why the income and expenditure form needed to be completed, it didn't think further compensation was justified. It said that Mrs W had maintained her minimum monthly payments and that the real issue was Mrs W's unhappiness about its refusal to freeze interest on the account, which it said it wasn't obliged to do.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I'm partially upholding the complaint for broadly the same reasons as the investigator. I've focussed my comments on what I think is relevant. If I haven't commented on a specific point, it isn't because I've failed to consider it and take it on board, but because I don't think I need to mention it to achieve what I think is the right outcome.

I recognise that Mrs W has been impacted by this. She's explained that she found the letter she received from NewDay confusing and feels frustrated that she hasn't received a response to her offer to increase her monthly payment and her request for the account to be frozen.

I've looked at the letter which NewDay sent to Mrs W. In the initial letter, NewDay advised Mrs W that she was in persistent debt and explained what would happen if this didn't change. I've thought about whether NewDay did anything wrong here. I don't think it did. The FCA implemented a change in their rules in 2018 which were designed to ensure that businesses such as NewDay took action to prevent customers from being in persistent debt for long periods of time. This is because when customers are in persistent debt, they often end up paying more in interest and charges than they do paying off the actual amount they've spent. I've thought about whether NewDay followed these guidelines fairly. I'm satisfied that in sending a letter to Mrs W explaining that she was in persistent debt, and explaining that additional monthly payments would reduce the cost of her borrowing and the time it would take to repay the debt, NewDay acted in line with the guidelines.

I can see that when Mrs W replied to the letters from NewDay, she asked it to freeze interest and block the card. She also put forward a proposal to increase her monthly payment. I've looked at the letter which NewDay sent in response. This stated that Mrs W was in arrears and asked her to complete an income and expenditure form.

Looking at the wording of the letter, I think NewDay made an error here. Mrs W's account wasn't in arrears. The letter didn't make it clear why the income and expenditure form needed to be completed.

I understand why NewDay sent the income and expenditure form. It needed to make sure that the increased amount offered by Mrs W was affordable for her. But NewDay didn't explain this to Mrs W. It's clear from Mrs W's subsequent letters that she was worried that her account was in arrears, and that she thought the income and expenditure form was something to do with arrears.

Based on what I've seen, I think NewDay's letter was confusing and misleading. It caused Mrs W unnecessary distress. NewDay should've done more to explain why the income and expenditure form was needed. Given these failings, I think it's fair to ask NewDay to pay further compensation to Mrs W for the trouble and upset caused. I agree with the investigator that a further sum of £140 (making a total sum of £200) is fair.

I appreciate that Mrs W wants to increase her monthly payments and that she wants to have interest frozen. Once the income and expenditure form has been completed, NewDay will check that her proposal is affordable. In relation to freezing interest on the account, this isn't something which NewDay is obliged to do. I understand that Mrs W will be disappointed about this, because the income and expenditure form which was sent to her makes reference to stopping interest on the account. But this only applies in circumstances where a payment arrangement has been set up for arrears. It doesn't apply to Mrs W's circumstances where payments are up to date.

Putting things right

To put things right, NewDay should compensate Mrs W for the trouble and upset caused by

its inaccurate letter. The further sum of £140 is fair and reasonable.

My final decision

My final decision is that I uphold the complaint. NewDay Ltd must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 2 June 2022.

Emma Davy
Ombudsman