

The complaint

Miss S, who is represented by a claims management company (CMC), complains that NewDay Ltd trading as Argos Classic Credit Card were irresponsible in agreeing to a credit card account and later increasing her limit.

What happened

The details of this complaint are well known to both parties, so I won't repeat them again here. The facts are not in dispute so instead I'll focus on giving the reasons for my decision.

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 agree with the conclusions reached by the investigator for the following reasons:

As our investigator has stated there was an obligation on NewDay to ensure the lending was such that Miss S would have been able to sustainably repay any credit provided. And being able to sustainably repay credit means being able to do so without undue difficulty, while being able to meet other commitments and without having to borrow further.

NewDay made two lending decisions, the first being in April 2020 when it offered her a credit card with a limit of £500 and the second occurred in September 2020 when it offered her an increase in her limit to £1,500. Miss S accepted both offers.

I have reviewed the checks carried out by NewDay in April and I consider them to have been reasonable and proportionate. While I note Miss S had some credit issues in the past her more recent history was sufficient to allow the business to reach the conclusion that a credit card with a £500 limit was reasonable. It did rely to some extent on information provided by Miss S, but the additional checks were suitable for the level of lending it granted.

However, I share the concerns expressed by our investigator about the increase in the card limit in September. At that point it had additional first-hand information on Miss S's ability to manage her credit. Her external level of debt had increased from £6,500 in April to £10,178 in September. That is a 56% increase in debt in a few months. I am not aware that her income had increased and so her financial position was worse in September than it was in April, but NewDay offered to triple her credit limit.

Furthermore, she had exceeded her £500 limit in August which was indicative that she was facing financial challenges. I appreciate that NewDay take the view that sufficient checks were carried out and Miss S was nothing to indicate Miss S was struggling. I have to disagree. As I have pointed out her increasing reliance on credit and her exceeding her limit were both indicators of a possible problem.

For these reasons I consider the complaint should be upheld.

Putting things right

NewDay should refund interest as set out below.

My final decision

My final decision is that I uphold this complaint and I direct NewDay Ltd trading as Argos Classic Credit Card to:

1. Refund all the interest and charges on amounts over £500 Miss S has paid to date.
2. If the borrowing is still in place, it you should reduce the outstanding capital balance by the amount calculated at Step 1.
3. If, after Step 2, there remains an outstanding capital balance, it should ensure that it isn't subject to any historic or future interest and/or charges. But if Step 2 leads to a positive balance, the amount in question should be given back to Miss S and 8% simple interest* should be added to the surplus.
4. Remove any adverse information recorded on Miss S' credit file as a result of the credit limit increase from September 2020.

HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 10 June 2022.

Ivor Graham
Ombudsman