

The complaint

Mr P complains that NewDay Ltd trading as Amazon Classic MasterCard was irresponsible in increasing the credit limit of his credit card account.

What happened

Mr P opened a credit card account with NewDay in July 2019 with a credit limit of £500. In August 2020 his credit limit was increased to £1,500. This was increased again to £2,500 in January 2021 and in May 2021 this was increased again to £4,000.

In late 2021 Mr P complained to NewDay that it had been irresponsible in increasing his credit limit. He said that he had only been able to make minimum or slightly above minimum payments and he had been using much of the available credit. NewDay rejected this and said it had carried out appropriate checks at the time he first applied for a card. In addition to details he had provided about his income and indebtedness it had reviewed external information. It believed the offer of a card with a £500 limit was reasonable.

It said Mr P had the option of refusing the subsequent increases, but he had not done so. Before proposing increased limits, it had reviewed his use of the account and external information. It said adequate checks had been carried out to ensure the borrowing was affordable.

Mr P didn't agree and brought his complaint to this service where it was reviewed by one of our investigators who recommended it be upheld.

He thought that the checks carried out in July 2019 had been proportionate and he didn't think there were grounds for refusal. However, he felt the decision to increase the limit to £1,500 was wrong. He noted that Mr P's unsecured debt had risen from £20,100 to £25,638. Mr P had also incurred two late payment fees in January and February 2020 and was using almost all his credit limit.

Our investigator obtained Mr P's bank statements and noted he was using most of his £3,000 overdraft facility and the £750 facility on another account. He considered Mr P's repayments on all lines of credit to have become unsustainable. Finally, he noted that Mr P's net salary was some £328 less than NewDay had calculated. He said that the increased limit had been inappropriate and it followed that the subsequent increases were also inappropriate.

NewDay didn't agree and said it wasn't obliged to look at bank statements or payslips. It said that Mr P's spending on the card was not on necessities and it didn't think there were any warning signs at the time the limit was first increased. It said the account utilisation was irrelevant and when the first increase was offered it had nine months' worth of data to support its decision. The late payments had occurred more than six months earlier and this had not been repeated.

It had relied on its affordability model and Mr P had met its requirements. It said that it had carried out reasonable and proportionate checks and it believed the higher limits were

sustainable.

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.

I am in agreement with our investigator and NewDay that the original credit card limit was appropriate and I am satisfied that the checks were reasonable and proportionate. However, I have concerns about the subsequent increases.

I have noted that Mr P did not refuse them, but nor did he ask for them. They were given to him and he had to actively refuse the new limits if he didn't want them. Given his personal circumstances at the time of going through a divorce I can see that the temptation was put in front of him all too easily.

I can see that NewDay used its internal models to determine if his limit could be increased, but I fear that in this case it generated the wrong answer. I agree that NewDay didn't gain a clearer understanding of Mr P's financial situation. Its calculation of his net income was out by some 11%. I would add that I am satisfied that Mr P gave the correct information about his salary on his application for the original card.

Having reviewed his credit report I can see that he was borrowing heavily and was reliant on credit, regardless of what he was spending it on. I am satisfied that he was stretched financially and increasing the limit only exacerbated his indebtedness. His unsecured debt had increased by some 28% by the time the first increase was offered and I find it hard to conclude that offering him further opportunities to increase that debt was the most advantageous for him.

Furthermore, the increase by 150% seems unduly high in his circumstances. If the increase had been relatively small I may have concluded that it was proportionate but increasing it by £1,000 does not seem appropriate.

I acknowledge that checks were carried out, but I believe that these were not sufficient to allow NewDay to fully understand Mr P's situation and as a result I consider that it resulted in him being given unaffordable debt.

It follows that the subsequent increases were based on a flawed decision in August 2020 and I consider those also to be flawed.

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 to:

1. Refund all the interest and charges Mr P has paid to date on borrowing over £500.
2. If the borrowing is still in place, it should reduce the outstanding capital balance by the amount calculated at Step 1.
3. If, after Step 2, there remains an outstanding capital balance, NewDay 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 Mr P and 8% simple interest* should be added to the surplus.

4. NewDay should remove any adverse information recorded on Mr P's credit file in relation to this account..

*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 Mr P to accept or reject my decision before 10 June 2022.

Ivor Graham
Ombudsman