

The complaint

Mr M complains that NewDay Ltd ("NewDay") irresponsibly granted him credit that he couldn't afford to repay.

What happened

NewDay approved a credit card application for Mr M in February 2015. They initially provided a credit limit of £250 but in August 2015 they increased the credit limit to £550.

Mr M says they were wrong to provide credit as it wasn't affordable for him.

NewDay disagree. They say that they relied on what Mr M told them about his income when opening his account and that they used information from his credit file and an assessment of his likely expenditure when agreeing to provide the credit. They noted that there were some occasions when Mr M had gone overlimit prior to the August 2015 limit increase and they also noted there'd been a missed payment, but they didn't think that meant the credit had been provided irresponsibly.

Our investigator thought that NewDay shouldn't have provided the limit increase in August 2015 and he suggested NewDay should take some action to remedy the situation. But as NewDay disagreed the complaint has been referred to me, an ombudsman, for a final 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

Account opening.

NewDay says it looked at Mr M's credit file and noted there were no active payment arrangements or County Court Judgements and that his payments to other credit providers were up to date. Mr M had told them he was working and provided details of his income. On that basis I think the checks NewDay completed were reasonable. There was nothing in the credit history to suggest payment difficulties and whilst Mr M's income was relatively low so was the credit limit NewDay approved the card on.

August 2015 limit increase.

NewDay more than doubled the credit limit in August 2015. They say they noted the limit had been exceeded in previous months and that there was one late payment fee on Mr M's account. But they also reviewed his credit file and could see that Mr M wasn't in arrears with his other credit commitments.

I don't think those checks were proportionate. The new limit represented more than 10% of Mr M's gross income and there were signs of distress on his NewDay account that I think merited further exploration. He'd been at, or beyond, his credit limit for each of the four preceding months, had incurred a late fee, and had been using his credit card to obtain cash which was an expensive option. I think those issues warranted further investigation into Mr M's financial situation.

I think it would have been proportionate for NewDay to have found out more about Mr M's committed expenditure, such as his living costs. I can't be sure exactly what NewDay would have found out if it had asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr M's bank statements as to what would most likely have been disclosed.

I've reviewed statements from April and August 2015 as these were the only ones Mr M could obtain. Given the time that's passed and the closure of his current accounts, that has been evidenced in the credit file Mr M has provided, I'm persuaded Mr M has made reasonable efforts to obtain his bank statements and that the statements he's provided give a reasonably accurate picture of what NewDay would have seen if they'd asked.

The statements show that Mr M didn't have enough disposable income to afford the repayments. Mr M was paying a significant amount of his income towards other credit card balances and a running credit account (over £600 in August 2015) and his expenditure on driving lessons needed for work was about £100 a month. There were also expenses for food and telephone/communication costs. This demonstrates that Mr M didn't have enough disposable income to afford the additional borrowing. NewDay therefore didn't act fairly by approving the credit limit increase in August 2015.

Putting things right

As I don't think NewDay should have increased Mr M's credit limit beyond £250, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr M has had the benefit of all the money he spent on the account so I think he should pay this back. Therefore, NewDay should:

- Rework the account removing all interest, fees, charges, and insurances (which have not already been refunded) that have been applied to balances above £250.
- If the rework results in a credit balance, this should be refunded to Mr M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. NewDay should also remove all adverse information recorded after the August 2015 limit increase regarding this account from Mr M's credit file.
- Or, if after the rework the outstanding balance still exceeds £250, NewDay should arrange an affordable repayment plan with Mr M for the remaining amount. Once Mr M has cleared the outstanding balance, any adverse information recorded after the August 2015 increase in relation to the account should be removed from his credit file.

*If HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mr M a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold this complaint and direct NewDay Ltd to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 September 2022.

Phillip McMahon
Ombudsman