

## **The complaint**

Ms H complains that NewDay Ltd, trading as Debenhams, lent to her irresponsibly.

## **What happened**

In November 2020 Ms H opened a credit card account with NewDay. She had an account limit of £500 which didn't change during the life of the account.

Ms H says that NewDay shouldn't have lent to her because she couldn't afford it. She says if NewDay had done checks on her which it should have done it would have realised she had a lot of debt.

NewDay says that it did all the necessary and proportionate checks and these showed that Ms H could afford the credit that was extended to her.

Our adjudicator thought that NewDay shouldn't have lent to Ms H. They thought Ms H was so indebted elsewhere that NewDay should have realised she would struggle with any more debt. Our adjudicator said that NewDay should refund any interest and charges paid by Ms H.

NewDay disagreed. It pointed out that Ms H managed her account both with it and other lenders well and that she had not ever been in arrears. The account is now closed. As NewDay disagreed, the case has been passed to me to make a 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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Ms H's complaint.

NewDay needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms H could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, Ms H's borrowing history and her income and expenditure.

NewDay says its credit check results didn't show anything negative to suggest it would have been unreasonable to have provided Ms H with the credit. It says it asked her about her income and it also had information about other credit she had elsewhere and that none of this cause concern. It points also to the fact Ms H managed her account well and did not incur any fees or charges at any point.

However, I think that the results of NewDay's checks should have been a cause for concern. Ms H told NewDay that she earned only around £750 net a month, with accommodation

costs of £400 a month. She declared that she had no monthly living costs, which clearly could not be true. Credit checks showed that Ms H had £6,300 in other unsecured debt. While NewDay noted that Ms H had nine active credit accounts it noted no defaults or arrears, no payday loans and no CCJs it did not know how Ms H's unsecured debt was structured and, had the entire sum been owed via revolving credit accounts, sustainable monthly repayments at 5% would have left Ms H with almost nothing each month.

Information supplied by Ms H in the form of a credit report indicate these credit accounts comprised three loans, two credit cards, an overdraft facility, a catalogue account and two utility accounts. Ms H's loans were costing a combined total of £217 a month.

So while NewDay's check may have been proportionate I think it should have sought a better understanding of her financial situation before lending to her. It should have queried her lack of living expenses and how she was meeting her existing credit costs from her limited income. I think it should have been evident to NewDay that Ms H wouldn't have had the capacity to sustainably repay the new account. It follows that I agree with our adjudicator that NewDay was wrong to lend to Ms H.

### **Putting things right**

As I don't think NewDay ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Ms H should pay back the amounts she has borrowed. Therefore, NewDay should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Ms H 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 regarding this account from Ms H's credit file.
- Or, if after the rework there is still an outstanding balance, NewDay should arrange an affordable repayment plan with Ms H for the remaining amount. Once Ms H has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

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

This compensation is standard redress in a case of this type where it is considered that an account should not have been opened in the first place. It reflects the redress requested by Ms H through her representatives from the outset. My understanding of Ms H's account activity is that she paid no more than £1.09 in interest, fees or charges over the course of the lending relationship; this means she is unlikely to receive more than £1.50 in compensation. Parties may wish to reflect on the effort put into pursuing this complaint to this final resolution considering the level of compensation known to be at stake.

### **My final decision**

I uphold Ms H's complaint and direct NewDay Ltd, trading as Debenhams, to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 11 July 2022.

Sally Allbeury  
**Ombudsman**