

The complaint

Miss S complains that NewDay Ltd trading as Fluid lent irresponsibly when it approved a credit card application and later increased the credit limit.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

In January 2020 Miss S applied for a Fluid credit card with NewDay. In the application, Miss S said she was a tenant, single, employed and had an income of around £23,000. NewDay carried out a credit search and found Miss S owed around £4,100. NewDay also found that Miss S had defaulted on two debts just over a year earlier with a combined balance of £20,900.

NewDay approved the Fluid credit card with a limit of £600. In July 2020 NewDay increased the credit limit to £1,350. NewDay says the credit limit increase was approved in line with its lending criteria after carrying out the relevant checks.

Last year, Miss S complained that NewDay had lent irresponsibly. NewDay issued a final response but didn't uphold Miss S' complaint. An investigator at this service looked at Miss S' case and upheld it. They thought NewDay had lent irresponsibly when it approved the credit limit increase to £1,350 in July 2020. NewDay asked to appeal, so Miss S' complaint has been passed to me to make a decision.

What I've provisionally 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 investigator thought the credit limit increase in July 2020 was irresponsibly approved. But I think the decision to approve the original application was irresponsible as well. I'll explain why.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Miss S could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered proportionate will vary depending on various factors like:

- *The amount of credit;*
- *The total sum repayable and the size of regular repayments;*
- *The duration of the agreement;*
- *The costs of the credit; and*
- *The consumer's individual circumstances.*

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate.

In this case, NewDay asked Miss S for details of her income and residential status when she first applied. NewDay has told us it checked Miss S' credit file and found she owed around £4,100 in January 2020. NewDay also says it found two defaults totalling £20,900 that were 14 months old. In my view, these figures should've caused NewDay to consider completing better checks. Whilst I understand NewDay's position as a "second chance lender" the size of the two defaults was large. And 14 months is a reasonably short period of time between defaulting on over £20,000 of debt and applying for a new credit card. NewDay also found Miss S owed around £4,100. Taken together I think the information NewDay found on Miss S' credit file should've caused it to complete better checks.

I also think it's reasonable to note that I don't think NewDay's initial credit search found all Miss S' unsecured borrowing. I say this because NewDay found around £4,100 in January 2020 but in February 2020 NewDay's risk data records Miss S' outstanding unsecured credit as around £25,000. Either Miss S obtained another £21,000 of unsecured credit in that period, or the initial checks NewDay completed failed to obtain an accurate figure. Regardless, I think the information NewDay did find should've caused it to look more closely when assessing Miss S' application.

NewDay increased Miss S' credit limit to £1,350 in July 2020 but by this point it's risk data showed an increased unsecured borrowing figure of around £25,500. A substantial increase from the £4,100 figure contained in the original application. In my view, this should've caused NewDay to carry out better checks.

Miss S has sent us lots of information setting out her circumstances during this period. I've looked at bank statements and information from Miss S' credit file. In my view, had NewDay carried out better checks and sought to verify whether Miss S could afford to sustainably maintain further credit payments it would've declined the application. I think NewDay would've found Miss S was reliant on credit to make ends meet and unlikely to be in a position to sustainably repay further borrowing.

As it's my view that NewDay lent irresponsibly both when the Fluid credit card was approved and the credit limit was increased I intend to tell it to refund all interest, fees and charges applied from inception to date. NewDay should also ensure no future interest is applied to the credit card balance and take steps to reach an affordable repayment plan with Miss S.

It wouldn't be fair for NewDay to record adverse information on Miss S' credit file where it's lent irresponsibly. So I also intend to tell NewDay to remove all adverse information recorded on Miss S' credit file.

I invited both parties to respond with any additional comments or information they wanted me to consider before making my final decision. Miss S confirmed she had nothing further to add. Newday didn't respond.

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.

As neither party has provided new information for me to consider, I see no reason to change the conclusions I reached in my provisional decision. I still think Miss S' complaint should be upheld, for the same reasons.

My final decision

My decision is that I uphold Miss S' complaint and direct NewDay Ltd trading as Fluid to settle as follows:

- Refund all interest, fees and charges applied to the credit card from inception to date
- NewDay should ensure no future interest is applied to any outstanding balance that remains
- If the result of the above refund leads to an outstanding balance remaining, NewDay should contact Miss S and discuss options for an affordable repayment plan
- If the result of the above refund leads to a credit balance it should be refunded to Miss S along with 8% interest from the date the overpayment arose to the date of settlement
- NewDay should remove all adverse information recorded about the Fluid credit card from inception onwards. NewDay should ensure no future adverse information is recorded on Miss S' credit file in relation to the Fluid credit card

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 8 July 2022.

Marco Manente
Ombudsman