

The complaint

Ms P complains that NewDay Ltd ("NewDay") irresponsibly granted her credit that she couldn't afford to repay.

What happened

NewDay approved several credit card applications for Ms P, as follows:

Amazon credit card approved April 2018 with an initial credit limit of £500, which quickly rose to £600 and increased again to £1,500 in September 2018 and £2,500 in March 2019.

Debenhams credit card approved in November 2018 with a limit of £1,750

Opus credit card approved in February 2019 with a limit of £900.

Ms P says that in all instances NewDay were wrong to provide credit as it wasn't affordable for her.

NewDay disagree. They say that when they approved the cards they reviewed Ms P's credit file and for all the applications they found she had no arrears, no County Court judgments, and no defaults registered on her file. They said that Ms P had told them she had an income of £19,500 and there was additional household income that they thought it fair to suggest Ms P would have access to. They saw no reason not to approve any of the accounts or credit limit increases as they believed the evidence suggested the credit was affordable for Ms P.

Our investigator thought that NewDay were reasonable when approving the Amazon card but didn't think NewDay should have approved the September 2018 limit increase on that card or have provided any further lending. She 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 here.

The Amazon account opening

I think NewDay completed proportionate checks before approving this credit card. They reviewed Ms P's credit file and gathered some information from her about her income and circumstances. I think that information suggested Ms P could afford the £500 credit they were offering. There was unsecured debt on Ms P's credit file of about £15,900 but her

performance on the other credit agreements she had was good, the credit being offered reasonably limited, and her income would seem sufficient to afford repayments in the long term.

There was a modest £100 limit increase a couple of months later by which time NewDay would have been able to assess Ms P's performance on her account. The account had stayed within limits and payments had been received in time, so I don't think that £100 increase was unaffordable.

The Amazon card limit increase in September 2018

I don't think NewDay's checks were proportionate at this point. They've explained that they considered Ms P's credit file and her performance on the account. The credit file showed that her unsecured debt had risen significantly, and she'd also gone over her limit on the account in the previous month. Ms P had also been withdrawing cash from the account. I think that's an expensive way to obtain money and, all told, I think there was a suggestion she was over reliant on her credit card and may have been struggling financially.

So, I think NewDay should have obtained some more information, such as information on Ms P's living costs, to assure themselves that the additional credit was affordable for her. 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 Ms P's bank statements as to what would most likely have been disclosed.

I've reviewed bank statements leading up to the lending decision. These show that Ms P's monthly net income was £1,295 and her outgoings including food, car costs, insurances and communication costs exceeded that income. This demonstrates that Ms P didn't have enough disposable income to afford the additional borrowing. NewDay therefore didn't act fairly by approving the finance.

The Debenhams account

NewDay completed similar checks before this account was opened but I think the evidence still suggested further checks would have been proportionate because Ms P's position was similar when she applied for this account. Her unsecured debt had risen further since her limit was increased on her Amazon card. Had NewDay had asked for more information I think the evidence in Ms P's bank statements would have suggested the additional credit wasn't affordable for her.

The Opus account

NewDay completed similar checks before this account was opened but, again, I think the evidence it collected would have suggested further checks were necessary. Ms P's indebtedness had increased further at this point and she was regularly withdrawing cash from her account. She'd also exceeded her credit limit on her other cards on several occasions in the preceding months. I think that evidence alone would have been enough to suggest it was not responsible to extend further credit and to increase Ms P's indebtedness further.

The Amazon limit increase in 2019

I can't see that Ms P's situation had improved by the time her limit was increased to £2,500. Her indebtedness had worsened, and she had recently been over limit on her Amazon account and had still been withdrawing cash. I think the lending was therefore clearly unaffordable.

Putting things right

As I don't think NewDay should have approved the Debenhams and Opus cards or have increased the credit limit beyond £600 on the Amazon card, I don't think it's fair for it to charge any interest or charges on the Opus or Debenhams cards or on any balances that exceeded the £600 Amazon limit. However, Ms P has had the benefit of all the money she spent on the account so I don't think that spending should be refunded. The accounts were all closed in 2021 so, NewDay should:

- Refund all interest, fees, charges, and insurances except for those attracted on the Amazon card when the credit limit was £600 or below. Add 8% simple interest per year*.
- Remove all adverse information reported to Ms P's credit file from the point the Amazon account limit was increased to £600. And remove all adverse information reported to Ms P's credit file regarding the other two accounts

*If HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Ms P 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.

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 Ms P to accept or reject my decision before 27 September 2022.

Phillip McMahon
Ombudsman