

The complaint

Miss M complains that NewDay Ltd lent irresponsibly when it approved two credit cards in her name and went on to increase the credit limit.

What happened

In August 2016 Miss M applied for an Aqua credit card with NewDay. Miss M said she was a tenant, single and a part time contractor. Miss M said she was earning £28,700 and had unsecured borrowing of around £3,000. NewDay carried out a credit search and found Miss M had a default that was around three years old. NewDay approved Miss M's credit card with a limit of £300. In April 2018 NewDay increased the Aqua credit limit to £850.

In August 2017 Miss M applied for a Marbles credit card with NewDay. In this application, Miss M confirmed she was still a tenant and working part time with an income of £28,000. An unsecured credit figure of £6,500 was recorded. NewDay carried out a credit search and found two defaults, totalling £1,100, in Miss M's name. NewDay also found Miss M had an account that was in arrears.

Miss M fell into difficulties and stopped making payments to her credit cards in mid 2018. The cards were closed and defaults recorded on Miss M's credit file a short time later.

Last year, Miss M complained that NewDay had lent irresponsibly but it didn't agree. An investigator at this service looked at Miss M's complaint and upheld it. They thought NewDay had lent responsibly when it approved the Aqua application in August 2016. But the investigator thought NewDay had failed to carry out proportionate checks before taking the decision to increase the Aqua credit limit then approve Miss M's Marbles credit card. NewDay asked to appeal, so Miss M's complaint 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.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Miss M 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 reasonable and 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.

When Miss M first applied for the Aqua credit card in August 2016 NewDay collected information about her living situation and income. NewDay also carried out a credit search. I note NewDay found a default, but its lending criteria factors in some adverse credit and I'm satisfied that was taken into account. NewDay says it looked at how much Miss M owed other lenders and found around £3,000 at the time of application. Taking the information provided in the application into account, I'm satisfied the checks NewDay completed were proportionate to the £300 limit it approved. I haven't found NewDay lent irresponsibly when it approved the Aqua credit card.

In April 2017 NewDay increased the Aqua credit limit from £300 to £850. Miss M had held the Aqua card for around eight months at this stage and her outstanding unsecured credit figure had increased from £3,000 to around £4,500 in that time. In addition, NewDay was more than doubling the Aqua credit limit based on application information. In my view, the information available to NewDay should've led it to complete more comprehensive checks to ensure Miss M could afford to repay the balance in a sustainable way.

In August 2017 NewDay assessed Miss M's Marbles credit card application. At this stage, Miss M owed nearly £6,000 to other lenders. I note Miss M missed a payment on her Aqua credit card in February and April 2017. And NewDay found two defaults on Miss M's credit file in the Marbles application, an increase from the Aqua application. Given the increase in borrowing generally, the increase in Miss M's Aqua balance and credit limit, missed payments and additional debt by way of a new Marbles credit card, I think NewDay should've carried out better checks.

As noted above, there's no set list of checks NewDay had to complete. Miss M has sent us her bank statements for the period in question. That would've been an option for NewDay to verify Miss M's circumstances. I've looked at the statements and I'm satisfied they show Miss M wasn't in a position to support further borrowing when NewDay increased the credit limit of her Aqua credit card in April 2017 then approved the Marbles credit card in August 2017. In my view, NewDay lent irresponsibly on both those occasions. As a result, I'm going to uphold Miss M's complaint and direct NewDay to refund all interest, fees and charges applied to the NewDay credit card on balances over £300 from April 2017 onwards. And I'm going to tell NewDay to refund all interest, fees and charges applied to Miss M's Marbles credit card from inception onwards.

I also intend to tell NewDay to ensure an affordable repayment plan is discussed with Miss M. Once the balance of each credit card has been repaid, NewDay should remove the corresponding default its reported from Miss M's credit file.

Putting things right

To resolve this complaint NewDay should settle as follows:

- Rework Miss M's current Marbles credit card balance so that all the interest, fees and charges applied to it from inception onwards are removed;
- Rework Miss M's Aqua credit card to ensure that from the date of the credit limit increase to £850 onwards so interest is only charged on the first £300 outstanding - to reflect the fact that no further credit limit increases should have been provided;
- If an outstanding balance remains once these adjustments have been made NewDay should contact Miss M to arrange a suitable repayment plan for this;
- If no outstanding balance remains, any adverse information should be removed from the credit file;

AND

- If the refund brings means there's no remaining balance, any extra should be treated as overpayments and returned to Miss M;

AND

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement.†

† HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Mr M a certificate showing how much tax it's taken off if he asks for one.

My final decision

My decision is that I uphold Miss M's complaint and direct NewDay Ltd to settle in line with the above guidance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 29 July 2022.

Marco Manente
Ombudsman