

The complaint

Mrs K complains NewDay Ltd (NewDay) irresponsibly increased the credit limits on her three credit card accounts.

What happened

Mrs K held three credit card accounts with NewDay under different brand names. Mrs K says despite the fact she had been in persistent debt NewDay increased the Amount of credit available to her and encouraged her to spend when it should have been looking to help her stay out of debt.

Mrs K says she is now struggling to meet her monthly commitments, and this has created much stress and made her unwell. Mrs K wants NewDay to stop the interest on her credit card accounts, close the accounts, and compensate her for the stress it has caused her.

NewDay says it carried out adequate checks when providing the credit card facilities and limit increases when it did, on all three of Mrs K credit card accounts. NewDay says it considered a wide range of information before agreeing to the credit card accounts and any subsequent credit limit increases. NewDay says it sent letters to Mrs K, prior to any credit limit increases on her credit card accounts and she had the option to decline them. NewDay says it has done nothing wrong.

Mrs K wasn't happy with NewDay's response and referred the matter to this service.

The investigator looked at all the available information and upheld Mrs K's complaint. The investigator felt NewDay had correctly approved the credit card facilities limit increases available to Mrs K, up until the point she informed them her income had substantially reduced. The investigator felt at that point NewDay shouldn't have provided any further lending to Mrs K and further checks would have revealed that she would not have been able to maintain the borrowing from that point.

The investigator felt NewDay should refund all interest and charges applied from June 2018 onwards based on the amount lent to Mrs K at that time. In addition, if this results in any overpayments NewDay should pay 8% simple interest on that sum.

NewDay didn't agree with the investigator's view and asked for the matter to be referred to 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.

Having done so, I have also upheld this complaint and will explain how I have come to my decision.

I can understand that Mrs K has gone through a difficult time financially and that must have been a worry to her. When looking at this complaint, I will consider if NewDay took

reasonable and proportionate checks before providing the three credit card accounts to Mrs K and the subsequent increased credit limits on those credit card accounts.

Mrs K complaint centres around the fact NewDay, having known she was struggling financially and had written to her regarding persistent debt, went on to provide further credit to her, adding to her financial problems and the stress that caused her.

NewDay have told this service it undertook a series of proportionate checks before agreeing to the three credit card accounts Mrs K held with them and have made the point there were no indications from the various internal and external sources that she was struggling to meet her monthly commitments. To be clear Mrs K holds/held three credit card facilities with New Day and I have appended below these and the credit limits and dates agreed :

Card 1.

Date	Limits agreed
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August 2015	- £900
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November 2015	- £900 to £1,900
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April 2016	- £1,900 to £2,500
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September 2016	- £2,500 to £3,750
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February 2017	- £3,750 to £4,350
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August 2020	- £4,350 to £5,100
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Card 2.

February 2018	- £900
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August 2018	- £900 to £1,500
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Card 3

June 2018	- £600
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October 2018	- £600 to £1,150
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March 2019	- £1,150 to £2,350
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July 2019	- £2,350 to £3,850
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I understand the points that NewDay make here and it has recently provided this service with an extract of data where it suggests Mrs K's disposable income could meet the minimum monthly payments required for Card 3, when it was issued, using a range of different interest rate scenarios.

Like the investigator, while I am satisfied NewDay had carried out reasonable and proportionate checks when it provided earlier credit card account uplifts on Card 1 and 2, that changed when In June 2018 Mrs K informed NewDay, when applying for Card 3, that her own personal income had dropped by over 55%, to circa £21,000. It's reasonable to say Mrs K at that point could no longer be classified as a high -income earner, as she had previously by NewDay.

It's worth mentioning that I'm not saying up until that point, NewDay had experienced any major problems with the other two credit card accounts Mrs K held with them, that said her borrowing was fairly hardcore, evidenced by the fact only three months later it issued persistent debt letters to Mrs K. I also understand NewDay's reference to other family income in June 2018, but I'm not fully convinced by this argument, as what is important here, is the credit card accounts and any repayment of the capital owing on those, would be Mrs K's responsibility solely.

So here, NewDay were made aware of a very substantial reduction in Mrs K's personal income, arguably the main source of the card's repayment, and knowing that, I am of the view that was the time to have asked for more detailed financial information from Mrs K, to confirm she could meet her ongoing financial commitments. While there are no set rules governing what checks must be carried out by businesses like NewDay, it's reasonable to think when it gets information that would suggest a major change in a consumer's income and potential affordability, that would warrant further investigation. Afterall, we're not looking at a few hundred pounds of credit here, but several thousand pounds of indebtedness to NewDay, excluding any external indebtedness she had.

I say this because, it's one thing to look at industry turnover data and model the ability to meet minimum monthly payments, and another to understand, if required, that Mrs K could sustainably make payments to reduce the capital over a reasonable period of time if asked to. So here, I am satisfied having been made aware of such a major reduction in Mrs K's income in June 2018, NewDay had a responsibility to make further checks to ensure she could reasonably maintain her ongoing financial commitments, for example the sight of an income and expenditure profile. Given the other indebtedness Mrs K had at this time I am satisfied, in all probability if this had been requested, it would have become clear that Mrs K was unlikely to have been in a position to meet her ongoing commitments or even get to grips with any increased payments to her credit card accounts, suggested by NewDay in its own persistent debt letter sent only a few months later.

It's worth mentioning NewDay refused further credit increases to Card 3 in December 2019, Jan 2020 and February 2020, but agreed an increase to Card 1's credit limit later in August 2020, which doesn't seem to be consistent here, and it's hard to think Mrs K's finances would have improved over that period of time.

Having said that, Mrs K has benefited from the use of the monies she has borrowed so it wouldn't be fair of me to ask NewDay to write off these balances as she has requested.

But here, I support the investigator's view that NewDay should now refund any interest and charges on any borrowing, above the previous credit limits in place before June 2018, to Mrs K's three credit card accounts. These refunds should be paid back to the respective cards in reduction of any outstanding debt. In the case of Card 2, which I understand has now been repaid and closed, any interest and charges refunded should be used in permanent reduction of any of the remaining credit card accounts, based on the highest interest rate outstanding.

If this should result in any overpayments then these should be refunded to Mrs K, adding 8% simple interest.

If an outstanding balance remains after these adjustments have been made, NewDay should then contact Mrs K to arrange a suitable repayment plan.

While NewDay will be disappointed with my decision I am satisfied this is a fair outcome here.

Putting things right

I instruct NewDay Ltd to refund any interest and charges, charged on any borrowing above the previous credit limits in place before June 2018, to all three of Mrs K's credit card accounts. These refunds should be paid back to the respective cards in reduction of any outstanding debt. In the case of Card 2, which I understand has now been repaid and closed, any interest and charges here should be used in reduction to one of the remaining credit card accounts, based on the highest interest rate being charged.

If this should result in any overpayments, then these should be refunded to Mrs K, adding 8% simple interest on that sum.

If an outstanding balance remains after these adjustments have been made, NewDay should then contact Mrs K to arrange a suitable payment plan.

My final decision

My final decision is that I uphold this complaint.

I instruct NewDay Ltd to refund any interest and charges charged on any borrowing above the previous credit limits in place before June 2018, to all three of Mrs K's credit card accounts. These refunds should be paid back to the respective cards in reduction of any outstanding debt. In the case of Card 2, which I understand has now been repaid and closed, any interest and charges here should be used in reduction to one of the remaining credit card accounts, based on the highest interest rate being charged.

If this should result in any overpayments, then these should be refunded to Mrs K, adding 8% simple interest on that sum.

If an outstanding balance remains after these adjustments have been made, NewDay should contact Mrs K to arrange a suitable payment plan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K to accept or reject my decision before 2 October 2022.

Barry White
Ombudsman