

The complaint

Mrs H complains that NewDay Ltd (“NewDay”) irresponsibly granted her four credit accounts that she couldn’t afford to repay.

What happened

Mrs H entered into agreements with NewDay to have access to credit with four separate credit card accounts. The first, a Debenhams Mastercard (card ending 0890), was opened for her in January 2019 with a credit limit of £500. In May 2019 the credit limit was increased to £1,200 and in September 2019 to £2,200.

The second, an Amazon card account, was opened for her in September 2019. From the information that’s available, it had an initial credit limit of £500 that was increased to £550 in August 2020.

The third, an Aqua Classic account (card ending 0759), was opened for her in November 2019 with a credit limit of £450, which was increased to £500 in July 2020.

The fourth, a second Aqua Classic account (card ending 5836) was opened in June 2021 with a credit limit of £300.

Mrs H says that NewDay didn’t complete adequate affordability checks when it opened the accounts. She says if it had, it would have seen that the accounts weren’t affordable for her given her financial history. She also says that NewDay ought to have known that she could only manage minimum payments and so it would take her a lot longer to pay off each of the cards.

NewDay didn’t agree. It said it carried out a reasonable and proportionate assessment to check Mrs H’s financial circumstances before granting her the accounts for each card.

Our adjudicator said the NewDay shouldn’t have increased Mrs H’s credit limit on Debenhams Mastercard to £2,200 in September 2019 and also shouldn’t have granted her the three other accounts.

Since NewDay hasn’t responded to our adjudicator’s findings, the complaint has been passed to me 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.

NewDay will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I'm in agreement with our adjudicator that NewDay didn't act fairly when it granted Mrs H the second credit limit increase on the Debenhams Mastercard and in agreeing the opening of the other three accounts.

I'll look at each of the four cards separately and explain my findings.

Debenhams Mastercard Card (ending 0890)

Account opening

The credit checks NewDay completed looked into Mrs H's financial circumstances. New Day also relied on the information Mrs H gave on her online application. Mrs H said she had a total annual income of £10,000. Whilst there was no evidence of Mrs H having any defaults, payment arrangements or arrears elsewhere, the checks showed she already had other credit commitments. In total, Mrs H owed £5,900 to other creditors. I think it's likely that repayments towards these debts took up a significant proportion of Mrs H's income. Although there were no immediate problems, I consider it would have been proportionate for NewDay to have got a more thorough understanding of Mrs H's financial circumstances before lending to her.

I think that had NewDay carried out further checks, it would likely have found that Mrs H had enough disposable income available to meet her existing financial commitments whilst maintaining this account. I say this because the bank statements I've seen from around this time show that Mrs H appeared to have enough disposable income available each month to be able to at least meet her monthly minimum payment requirements. I agree with our adjudicator that she had a monthly income that worked out at around £2,600 per month, with committed expenditure of around £1,800. If NewDay had completed proportionate checks by looking at these, I think it's likely it would have found this to be the case. That means I don't consider NewDay acted unfairly in giving Mrs H the Debenhams Classic card.

It follows that I think it would have been proportionate for New Day to have found out more about Mrs H's committed expenditure, such as her living costs. But I can't be sure exactly what NewDay would have found out if it had asked. In the absence of anything else, however, I think it would be reasonable to place significant weight on the information contained in Mrs H's bank statements as to what would most likely have been disclosed.

First credit limit increase

Looking at the first credit limit increase for this account, in May 2019, I agree with our adjudicator that it would have been proportionate for NewDay to have taken steps to find out more about any changes to Mrs H's income, as well as the level of committed expenditure she had at that time. I say this especially having seen that she'd use the card to withdraw cash in March 2019, had incurred an overlimit fee in May 2019 and also missed a payment that month.

I've reviewed three months of bank statements leading up to the first credit limit increase. These show that Mrs H's average income each month was around £740, whilst her average committed expenditure each month was around £540. This expenditure included other unsecured borrowing, payday and short term loans. I think this demonstrates it's likely Mrs H had enough disposable income each month at this time to make regular, sustainable repayments towards her Debenhams card. Therefore, if NewDay had completed proportionate checks, I think it may well have found this to be the case. I therefore don't consider that NewDay acted unfairly in granting Mrs H an increased limit for this account.

Second credit limit increase

Turning to the second credit limit increase, in September 2019, I think it would have been proportionate for NewDay to have found out more about Mrs H's committed expenditure, such as her living costs. 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 Mrs H's bank statements as to what would most likely have been disclosed.

I've again reviewed three months of bank statements leading up to the lending decision. These show that Mrs H's average monthly income was around £540 and yet her average committed expenditure was around £570, leaving her with a shortfall. Again, her committed expenditure was almost entirely spent on repaying debt and included short term lending. It's therefore clear that by this time Mrs H didn't have enough disposable income to sustainably afford the additional borrowing.

Amazon Card

This account appears in the credit search Mrs H sent us. Given that the account was opened around 11 days after the Debenhams account, at which point Mrs H's financial circumstances were largely the same, I think that it would have been proportionate for NewDay to have checked to ensure it had a more thorough understanding of Mrs H financial circumstances before lending to her again. Had it done so, it would have seen that Mrs H wasn't in a position to be able to comfortably maintain any repayments to this account without further worsening her financial situation.

Aqua Classic Card (ending 0759)

At the time Mrs H was granted her first Aqua Classic Card, in November 2019, Mrs H said she had an annual income of £12,000 and that her partner's monthly income was around £1,600. The credit check information from the time showed she owed around £7,800 in unsecured debt. Having seen that Mrs H was already incurring late and overlimit fees on her Debenhams Mastercard by this point and was making cash withdrawals from it, I think it ought to have been evident to NewDay by then that Mrs H might be struggling to manage her existing credit limits. So there was a significant risk that Mrs H wouldn't have been able to repay what she already owed within a reasonable period of time and that her overall indebtedness would increase unsustainably.

I don't think NewDay ought to have granted Mrs H this account without completing more thorough affordability checks. I think proportionate checks would likely have shown NewDay that Mrs H was already in difficulty with managing her other accounts alongside her mounting unsecured debt and day-to-day living expenses.

I therefore agree with our adjudicator that NewDay ought to have been aware that Mrs H was not in a position to take on and manage this additional credit. It follows that I don't think NewDay should have granted it to Mrs H.

Aqua Classic account (ending 5836)

The second Aqua Classic account was opened in June 2021. The credit check completed by NewDay showed that Mrs H was maintaining an annual income of around £10,000 but did not have the benefit of any income from her partner. She was now running around nine active accounts and/or cards, albeit with a moderately lower unsecured debt of £5,700. However, Mrs H was continuing to incur late and overlimit fees on her Debenhams Card and had incurred overlimit fees on her first Aqua card between

August and December 2020. At the same time her other card balances were close to being over their credit limits. I think this shows that overall Mrs H was struggling to manage her existing credit. So if NewDay had carried out proper and proportionate checks it would likely have seen that Mrs H was not in a position to take on more credit without further worsening her already difficult financial position.

Putting things right – what NewDay needs to do.

NewDay shouldn't have increased Mrs H's credit limit to £2,200 in September 2019. NewDay therefore needs to compensate Mrs H for all interest and charges on balances exceeding £1,200 – being the previous card limit - for her Debenhams Mastercard and any other interest and all charges she incurred on the three other accounts, which all opened after 9 September 2019, being the date of the second credit limit increase on the Debenhams Mastercard.

It should therefore:

- Rework Mrs H's account to ensure that all interest and charges should be removed from the Debenhams Mastercard and all such charges for the Amazon card and the two Aqua Classic cards. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, NewDay should contact Mrs H to arrange an affordable repayment plan for the account. Once Mrs H has repaid the outstanding balance, it should remove any adverse information recorded on Mrs H's credit file for all four accounts from 9 September 2019 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs H, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. NewDay should also remove any adverse information from Mrs H's credit file for all four accounts after 9 September 2019. †

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

My final decision

I therefore partially uphold this complaint and require NewDay Ltd to pay compensation in respect of each of these four credit card accounts as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 13 September 2022.

Michael Goldberg

Ombudsman