

The complaint

Mr S complains that NewDay Ltd irresponsibly gave him a credit card he couldn't afford to repay.

What happened

In September 2015, Mr S applied for a credit card with NewDay. He was given an initial credit limit of £250. The limit was increased to £900 in January 2016 and a final limit increase to £1,950 in July 2016.

In March 2022, Mr S complained to NewDay to say that it shouldn't have given him the credit card or the subsequent limit increases. He said that had NewDay completed appropriate affordability checks it would have seen that the credit was unaffordable to him.

NewDay didn't uphold the complaint. It said that it had carried out appropriate checks which showed that Mr S could afford the various credit limits it had provided him with.

Our adjudicator initially explained that Mr S had made his complaint about the opening of the credit card and the first credit limit increase too late. Therefore, our service could only consider his complaint about the final limit increase in July 2016. Mr S accepted that outcome.

Our adjudicator then recommended that Mr S' complaint about the final limit increase should be upheld. He said that at the time of the increase NewDay should have seen that providing further credit was likely to be unaffordable for Mr S. This was because of the relatively low income he had declared, the way he'd managed his credit card with NewDay and a large increase in his credit commitments elsewhere.

Mr S accepted that outcome but NewDay didn't respond. The complaint has therefore 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.

Prior to lending to Mr S, NewDay was required to ensure it carried out affordability checks. There isn't a set list of checks it needed to complete but it needed to ensure those checks were proportionate in the circumstances. What is considered proportionate will vary taking into consideration things such as (but not limited to): the size of the credit, the cost and Mr S' circumstances.

As part of this complaint I'm only considering the final limit increase in July 2016, however, in doing so I'll consider what NewDay already knew about Mr S' circumstances prior to the increase as I consider this to be relevant background and context to its decision to lend.

NewDay says that it understood Mr S had an annual income of around £12,500. At the time of the final limit increase he had only had use of the previous limit of £900 for six months. In the month that Mr S' limit was first increased to £900, he used almost the entire available limit on 37 separate 'cash' transactions rather than purchases. Two months later, NewDay's credit checks showed that Mr S had taken out three payday loans. So, I think this ought to have highlighted to NewDay that Mr S was likely struggling with his existing financial situation with a limit of £900.

When NewDay increased the limit to £1,950, the credit checks NewDay completed showed that Mr S' external unsecured debt was now four times higher than it had been just a few months earlier. Further, he had been over his limit on his NewDay credit card and incurred charges for this in two of the previous three months. Given all of this, and his relatively low income. I think it ought to have been clear to NewDay that more than doubling his existing credit limit was likely to be unaffordable and cause him financial difficulty. I therefore don't think NewDay made a fair lending decision when it increased the limit to £1,950.

My final decision

For the reasons given above, I uphold this complaint and direct NewDay Ltd to:

- Rework the account removing all interest and charges on balances above £900.
- If the rework results in a credit balance, it should refund any overpayments to Mr S along with 8% simple interest per year from the date of each overpayment to the date of settlement. It should also remove any adverse information recorded on Mr S' credit file from July 2016 onwards.
- If after the rework there is still a balance outstanding, NewDay should ensure it puts in place an affordable repayment plan for the outstanding amount. Once the capital has been repaid, it should remove any adverse information recorded on Mr S' credit file from July 2016 onwards.

If NewDay considers tax should be deducted from the interest element of my award it should provide Mr S with a certificate showing how much tax it has taken off, so that he can reclaim that amount if he is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 20 October 2022.

Tero Hiltunen
Ombudsman