

The complaint

Mrs F complains that NewDay Ltd lent irresponsibly when it approved a Debenhams and Fluid credit card in her name.

What happened

Mrs F had previously held two Aqua credit cards with NewDay. The cards were closed following financial difficulties with Mrs F in 2014.

In May 2018 Mrs F applied for a Fluid credit card. Mrs F said she was employed and that her income was £20,000 a month. Mrs F also said she was a homeowner. NewDay carried out a credit search and found £13,300 of unsecured credit and a default that was 33 months old. NewDay approved the Fluid credit card with a £600 limit.

Around July 2018 NewDay sold Mrs F's closed Aqua accounts to a third party business.

In September 2018 Mrs F applied for a Debenhams credit card. Mrs F's application said she was employed with an income of £21,000. NewDay carried out a credit search and found Mrs F's unsecured balances had increased to £17,400 since her previous application and the defaults were now 38 months old. NewDay approved the Debenhams card with a £900 credit limit.

Last year Mrs F complained that NewDay had lent irresponsibly. NewDay issued a final response but didn't uphold Mrs F's complaint. An investigator at this service looked at Mrs F's complaint and upheld it. They thought NewDay had lent irresponsibly by approving the Fluid and Debenhams credit cards and asked it to refund all interest and charges. NewDay didn't accept so Mrs F'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 Mrs F 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 existing relationship with the individual
- 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.

NewDay asked Mrs F for details of her income and circumstances. A credit search was also carried out. But NewDay had an existing relationship with Mrs F and had previously offered two credit cards to her that had been closed following financial difficulties. Those credit cards were sold a couple of months after the Fluid application was completed. But it's clear NewDay was aware that Mrs F had previously been unable to sustainably maintain repayments.

I also think the credit file information should've caused NewDay to consider completing better checks. Mrs F owed around £13,300 against an income of £20,000. Whilst Mrs F's payments were up to date, a reasonable proportion of her income would've been used to service existing debt. I think NewDay should've carried out more comprehensive checks before deciding whether to proceed.

In much the same way, I haven't found that proportionate checks were completed during the Debenhams application. NewDay's credit search found Mrs F's unsecured credit balance had gone from around £13,300 to £17,400 in a period of about five months. A sharp increase of this nature should've put NewDay on notice Mrs F may've been having difficulties making ends meet. And NewDay had approved another credit card around five months earlier. Taken all the available information into account, I'm satisfied NewDay should've completed better checks before deciding whether to lend.

There were a range of options open to NewDay to complete further lending checks. Mrs F has sent us a copy of her bank statement from the period in question as well as a complete credit report. Had NewDay looked at Mrs F's bank statements I think it would've found she was unable to reasonably sustain further repayments and declined the applications. In my view, NewDay lent irresponsibly when it approved Mrs F's credit card applications.

As I don't think NewDay ought to have opened the account, I'm not persuaded it's fair for it to be able to apply any interest or charges due under the credit agreement. But I think Mrs F should pay back the amounts they have borrowed.

My final decision

My decision is that I uphold Mrs F's complaint and direct NewDay Ltd to settle in line with the following:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Mrs F along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. NewDay should also remove all adverse information regarding this account from Mrs F's credit file.
- Or, if after the rework there is still an outstanding balance, NewDay should arrange an affordable repayment plan with Mrs F for the remaining amount. Once Mrs F has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mrs F 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.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 7 October 2022.

Marco Manente
Ombudsman