

The complaint

Mr M says NewDay Ltd irresponsibly lent to him.

What happened

Mr M applied for a credit card with NewDay in 2010 (Card 1), it was approved with a limit of £350. Mr M was given eight subsequent credit limit increases, with a final credit limit of £4,700.

Mr M says it was irresponsible of NewDay to increase his credit limit. He says if NewDay had done proper checks it would have seen he could not afford such substantial increases in credit. Mr M has also said NewDay then did not follow the correct process when defaulting his account. Lastly, Mr M feels it was unfair for NewDay to then close a second credit card account (Card 2) he held with it when he raised this complaint.

Our investigator upheld Mr M's complaint in part. They thought the lending decisions prior to May 2014 were responsible. But said that given the size of the limit increases from May 2014 onwards, NewDay should have done more to ensure any limit increases were affordable and would not cause Mr M financial harm. Our investigator also explained they did not think NewDay had acted incorrectly when defaulting Card 1, or in suspending Card 2.

NewDay disagreed with this assessment. It said Mr M's account was well-managed and that the data it received from the credit reference agency at each limit increase showed no signs of arrears or financial difficulty markers.

As an agreement was not reached the complaint was passed to me for an ombudsman's review.

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.

Our approach to unaffordable/irresponsible lending - including all the relevant rules, guidance and good industry practice - is set out on our website and I have followed it here.

NewDay is required to lend responsibly. It needed to conduct checks to make sure the credit facilities it was giving to Mr M were affordable and sustainable. Such checks need to be proportionate to things like the credit limits it offered Mr M, how much he had to repay each month, his borrowing history with it and what it knew about his circumstances.

Due to the time that's passed, there isn't any evidence or detail of any checks for the limit increases prior to 2014. So, I've taken into account the evidence I do have, which includes some of Mr M's statements showing how he managed his accounts. Given the initial credit limit increases offered to Mr M were for relatively small amounts, £300-£400 at a time, and he managed these without issue for a number of years, they don't look to have been unaffordable. So, with what I have seen I think it was reasonable for NewDay to have

concluded the card and its repayments would be sustainably affordable for Mr M, up to and including the limit increase in January 2013.

In May 2014 NewDay increased Mr M's limit from £1,900 to £2,850. This was a significant increase and NewDay needed to be sure Mr M could sustainably repay it within a reasonable period of time. NewDay's submission suggests that the decision to increase the credit limit on Mr M's account was largely based on reviewing his spending and payment behaviour on both the NewDay card, and external credit. In the circumstances of this case I don't think solely these types of checks were sufficient given how much NewDay was increasing Mr M's limit by. As a result, further checks should have been done so NewDay could be sure that Mr M would be able to sustainably repay a higher balance in a reasonable period of time.

To look at what better checks would most likely have shown NewDay I have reviewed Mr M's bank statements from the months prior to the limit increase. I am not saying NewDay had to do exactly this, but it is one way for me to recreate what a fuller financial review would most likely have shown NewDay. The statements do suggest that Mr M was having problems managing his finances, given that he was relying significantly on short term lenders. I've also seen Mr M's credit file, which goes back to 2013 and so gives me a picture of his other lending at that time. And Mr M's credit file shows me that between January 2013 and May 2014 Mr M's total borrowing had almost tripled, with much of this being on credit cards. So had NewDay carried out proportionate checks, perhaps including a review of Mr M's income and outgoings at that time, it would most likely have seen that Mr M was not in a position to be able to repay any new debt sustainably, that is without borrowing to repay or suffering other financial harm.

It follows I think NewDay was wrong to increase Mr M's limit in May 2014. I have then looked at Mr M's bank statements in the months after the limit increased. His finances show no sign of improvement, so I don't think NewDay can argue it was responsible to continue to increase his limit. So I find all subsequent limit increases were also irresponsible.

I acknowledge that NewDay says it was a change in circumstances that led to Mr M's account ultimately being defaulted, and I can see that Mr M did ask for help with his account after he lost his job in July 2015. But I can also see that he had raised concerns about his financial situation prior to losing his job and his bank statements show that he was already relying on payday loans to keep him afloat, and had been for some time. And, in any case, I don't think the fact that Mr M's financial situation worsened in 2015 means that he wasn't also struggling financially before then.

I acknowledge that Mr M is also unhappy with NewDay's actions when it defaulted Card 1, and the suspension of Card 2 when he complained. But overall I agree with what our investigator has said about these issues, I'm satisfied that Mr M was made aware of the potential for Card 1 to default as I've seen he was sent letters about this. I also think it was reasonable for NewDay to decide to suspend Card 2 when he told it he was struggling financially, as the terms of the account allow for this and it would have stopped him owing any more to NewDay. So I don't find that NewDay needs to do anything more regarding these two issues.

Putting things right

As I don't think NewDay should have increased Mr M's credit limit on Card 1 above £1,900, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr M has had the benefit of all the money he spent on the account so I think he should pay this back. Therefore, NewDay should:

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- Rework Card 1 removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £1,900
- If the rework results in a credit balance, this should be refunded to Mr M 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 recorded from May 2014 onwards regarding this account from Mr M's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,900, NewDay should arrange an affordable repayment plan with Mr M for the remaining amount. Once Mr M has cleared the outstanding balance, any adverse information recorded after May 2014 in relation to the account should be removed from his credit file.

*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

I uphold this complaint. NewDay Ltd should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 9 November 2022.

Sophie Mitchell
Ombudsman