

The complaint

Miss G complains that NewDay Ltd irresponsibly allowed her to open a credit card account which was unaffordable.

What happened

Miss G says the NewDay credit card account was opened in 2017 and at the time she was in financial difficulties and debt. She says she couldn't afford the monthly repayments and that NewDay's lending was irresponsible as well as unaffordable. Miss G would like interest and charges refunded.

NewDay says Miss G told it she was in employment earning £12,000 a year with additional household income of £814 a month. It says it carried out checks and calculated Miss G's other debt at £1,600. It also says it checked Miss G's credit file which showed no adverse information, arrears or defaults. NewDay says it approved the account with a credit limit of £500 which it increased to £1,400 in January 2018 following appropriate account management.

Miss G brought her complaint to us and our investigator upheld the complaint in part. The investigator thought appropriate checks were carried out by NewDay but that it shouldn't have increased the credit limit where there were clear signs of unaffordability. The investigator thought Miss G had not reduced the balance and had problems managing the account. The investigator recommended interest and charges be refunded.

NewDay doesn't accept that view and says Miss G had exceeded the credit limit once.

Miss G accepts that view.

My provisional decision

I issued a provisional decision on this complaint and said as follows.

I explained that lenders and credit providers must carry out reasonable and proportionate checks on any credit or lending application. And that those checks will of course vary depending on the type and amount of the credit facility or lending. I said this was an application for a credit facility and not for example a mortgage and so I wouldn't have expected NewDay's lending to have been as detailed here compared to that type of lending. But appropriate checks must still be carried out to ensure not only affordability but that any lending can be repaid appropriately.

I could see that Miss G told NewDay she was in employment earning £12,000 a year with additional household income of £814 a month. I was satisfied NewDay checked Miss G's credit file which showed no adverse information such as defaults or arrears and that it calculated her other debt, at what I thought was a relatively low amount of £1,600. So, I was satisfied that NewDay did carry out reasonable and proportionate checks on Miss G's application and there were no obvious signs of financial difficulties that it ought to have seen. I was also satisfied that NewDay approved what I thought was a relatively modest credit limit

of £500.

I looked carefully at Miss G's account management before NewDay increased the credit limit. I accepted Miss G's management was not perfect as she exceeded her credit limit by about £17. But I could also see from the account statements that Miss G made required payments and repaid the full balance before the increase. So, I didn't think NewDay acted irresponsibly by increasing the credit limit to what I thought was still a relatively modest amount of £1,400. I saw that Miss G didn't use the new balance immediately but some months later which I thought suggested that Miss G experienced financial difficulties sometime after the credit limit was increased.

I looked at Miss G's bank statements and credit file and thought that even if NewDay had carried out further checks before the credit limit increase that it unlikely it would have made a different lending decision. I said that as Miss G's account statements, before the increase, in December 2017 did not show for example the account being overdrawn and appear to show a wage being paid in. I also thought from looking at Miss G's credit file that at the time of the increase, other accounts were appropriately managed, and the difficulties appear to take place sometime later. Miss G told NewDay of those difficulties in August 2018 which was some time after the credit limit increase. So, I didn't think further checks would have made any real difference to NewDay's decision to increase the credit limit.

Overall, my provisional view was that NewDay carried out reasonable and proportionate checks on Miss G's application and on the later credit limit increase. And that the lending and credit limit increase was not irresponsible, but on the face of it affordable.

Miss G has replied to my provisional view and says she was receiving maternity pay until May 2018 when she was unable to work. She says she is now a carer for her disabled child and her financial position drastically changed.

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 come to the same overall decision I reached in my provisional view and for the same reasons. I appreciate Miss G may have been receiving maternity pay until some time after the credit limit increase. But I can't see how NewDay would have known that unless Miss G told it and I have not seen any evidence that she did. I am satisfied that Miss G's circumstances changed which led to her financial difficulties which was after the account was opened and after the credit limit increase. For those reasons I can't fairly conclude NewDay's lending was the cause of those difficulties or could have known they would have taken place.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 19 December 2022.

David Singh
Ombudsman