

## The complaint

Ms G complains that NewDay, trading as Debenhams, should not have accepted her credit card application or increased the credit limit on her credit card account as the lending was both unaffordable and irresponsible.

## What happened

Ms G is represented in this complaint. However, for the sake of simplicity in this decision I have referred to all the submissions from Ms G's representative as being made by Ms G.

Ms G applied and was accepted for a Debenhams card with NewDay in December 2018 with an initial credit limit of £500. In March 2020 Ms G was offered and accepted a credit limit increase to £1,250. Ms G said at the time she was not doing too well financially. She said checks weren't enough nor were they proportionate. She said the credit she was allowed was harmful rather than helpful.

In its final response NewDay said it was satisfied Ms G met its acceptance criteria and as a result she was provided with a card and a credit limit of £500. It said it believed this was appropriate given her circumstances. It went on to say that it was satisfied that the credit limit increase was provided to Ms G correctly and in line with its lending policy. It said adequate checks were completed to ensure this was affordable. Ms G didn't agree and brought her complaint to this service.

Our investigator concluded that NewDay hadn't acted unfairly by providing the initial credit facility. But he said the credit limit should not have been increased. He said the checks NewDay had carried out demonstrated Ms G wasn't able to maintain the repayments to the debt she already had and wouldn't be able to make sustainable repayments with an increased credit limit.

Ms G accepted the investigator's findings. NewDay didn't agree and asked for a decision from an ombudsman. It said the credit limit provided to Ms G was done so in line with NewDay's lending policy. And that she had passed NewDay's affordability and financial difficulty checks.

I issued a provisional decision on 18 November 2022. I said:

*We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Ms G's complaint. Before granting credit, NewDay was required to carry out a reasonable and proportionate assessment of Ms G's ability to sustainably repay the debt. This is often referred to as an 'affordability check'. This check had to be borrower-focused. This means it needed to be concerned with whether Ms G could sustainably afford the borrowing (considering her specific circumstances), rather than how statistically likely she was to repay. The latter is the risk posed to NewDay as the lender, or their 'credit risk' but this is not necessarily the same as an assessment of affordability.*

*What's considered reasonable and proportionate will vary depending on several factors and there isn't a one-size-fits-all approach to what is considered proportionate.*

*NewDay's lending decisions were as follows:*

	<i>Date</i>	<i>Limit</i>
<i>Debenhams card</i>	<i>December 2018</i>	<i>£500</i>
<i>1st increase</i>	<i>March 2020</i>	<i>£1,250</i>

#### *Account opening*

*NewDay said it's an instant credit provider, and most of its applications are completed online. It said this means it doesn't require evidence of income and expenditure, but instead it uses data submitted by the applicant and that supplied by the credit bureau. NewDay said at the end of the application process, the applicant is asked to agree that the information they have supplied is true to the best of their knowledge.*

*I've seen a copy of the application data provided by Ms G. She declared she had a monthly income of £458 along with a partner's monthly income of £583. She said her monthly accommodation costs were £450 and her monthly living expenses were £106. She had no defaulted accounts or public records and a total unsecured credit of £100. It does appear from this information that even though Ms G's unsecured credit amount was modest her combined household income was limited, and her living expenses seem unrealistically low. I'm persuaded this warranted further investigation of Ms G's expenses and income by NewDay before it accepted the application.*

*Our investigator reached out to Ms G for further information regarding her financial situation at the time of the application. Unfortunately, no new information was provided. I'm not disputing Ms G when she says she wasn't doing too well financially at the time of the application and while I'm persuaded further investigation by NewDay was likely necessary, without knowing more detail I can't say that NewDay had acted unfairly by accepting her credit card application with the credit limit of £500.*

#### *Credit limit increase*

*NewDay proactively raised Ms G's credit limit in March 2020 to £1,250. It said there were only sporadic instances of cash usage and late or overlimit fees in the period between the card opening and the credit limit increase. It said Ms G was making regular repayments in excess of the minimum monthly payment amount and there were no external arrears or repayment plans prior to the increase.*

*NewDay provided its risk and affordability data to this service. From April 2019 Ms G was using the maximum credit available to her, £500, withdrawing cash from her account in March and April. In July 2019 she went over the credit limit. In April and May 2019 two public records were noted on the risk data provided by NewDay. I've looked at her credit file and I can see these were County Court Judgements, to a total value of outstanding credit of £873. In November 2019 Ms G did make a substantial payment to bring the balance down but three months later, in February 2020, the month prior to the increase in credit she had exceeded her limit and was drawing cash from the account again.*

*NewDay said it's a second chance lender and allows for negative information on a credit report. It said adverse information on Ms G's account was noted but the credit limit increase was in line with its lending policy. It said Ms G had passed NewDay's affordability checks using external credit bureau commitments data in line with FCA guidelines. It said Ms G also passed the financial difficulty assessment based on her credit file data. Similarly, it said, the presence of external arrears does not mean that a consumer would not have been accepted for a credit limit increase with NewDay. NewDay went on to say consecutive fees did not occur on Ms G's account, as can be seen from the risk and affordability data, and so the increases went ahead in line with policy. It said it would be unreasonable to assume that the customer is experiencing financial difficulties purely due to over-limit fees. NewDay explained that it considers other factors when assessing the credit limit, for example, regular payments were received (albeit occasionally late), there was nothing concerning to suggest that the increases offered were unaffordable at that time.*

*Taken individually these events don't necessarily mean the lending was unaffordable or that Ms G couldn't make sustainable repayments. Cash withdrawals can indicate a consumer is struggling financially but not always. And I accept Ms G was making regular repayments above the minimum. NewDay said each lender can set its own limits on its risk appetite, and it operates primarily in the near-prime market. It said in the near-prime sector of the market, it is not unusual to see customers with a higher risk score and/or indebtedness be accepted for NewDay credit products. I'm not disputing this but NewDay also has a responsibility to ensure its risk assessment is borrower focussed – would Ms G be able to sustainably make repayments on her new credit limit.*

*I'm persuaded that when seen together the combination of factors indicates to me that Ms G's financial situation had deteriorated. The appearance of two public records on her file within six months of opening the account, a significant increase of unsecured debt to the value of £1898, on top of Ms G's recorded very low income at application stage, an increase in cash withdrawals and late payments, indicate to me there were red flags on Ms G's account to show Ms G wasn't managing payments on her existing debts. I'm satisfied NewDay should have increased its affordability checks by confirming Ms G's income versus expenditure to see whether an increase in credit was affordable.*

*Our investigator reached out to Ms G for further information regarding her financial situation, but none was provided. Ms G has said she was granted credit without the capacity to pay for it and couldn't afford it. Again, I'm not disputing Ms G and I'm persuaded further investigation by NewDay was likely necessary. But without knowing more detail about Ms G's financial situation at the time of the credit limit increase, such as bank statements showing income and expenses, I can't say that NewDay had acted unfairly by increasing her credit limit.*

Subject to any further information I was minded not to uphold this complaint. Ms G accepted my provisional findings and NewDay had nothing further to add.

### **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.

As both parties have accepted my provisional decision I see no reason to deviate from its conclusions.

**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 Ms G to accept or reject my decision before 17 January 2023.

Maxine Sutton  
**Ombudsman**