

The complaint

Mr B complains that NewDay Ltd has lent to him irresponsibly.

What happened

Mr B opened a credit card account with NewDay in 2017 (Card 1) with a credit limit of £450. The credit limit on this card was increased to £1,100 in June 2018 and then increased a further four times over the next few years. In February 2019 Mr B opened another credit card account with NewDay (Card 2). The initial credit limit on Card 2 was £900 and this was increased three times over the next year. In September 2019 Mr B was approved for a loan with NewDay for £7,500.

In 2021 Mr B complained to NewDay about the loan he'd been given, He said it was mis-sold to him as he was not in the financial position to repay it.

NewDay looked at all the lending it had provided to Mr B. It felt that it had been appropriate to approve Mr B for Card 1 in 2017. But NewDay considered that the limit increase on Card 1 in June 2018 had not been appropriate in light of his circumstances at the time. NewDay also considered that it had not been appropriate to open Card 2 for Mr B in February 2019. So NewDay refunded to Mr B the interest and charges he had incurred as a result of the limit increases on Card 1, and all the interest and charges applied to Card 2.

But NewDay did not agree that the loan Mr B took out in September 2019 was unsuitable. It considered that it had carried out appropriate checks when deciding to provide Mr B with this loan and that those checks had not given it any reason to think the loan might not be affordable. Mr B disagreed, so he referred his complaint to us.

One of our Investigators looked into Mr B's concerns. They explained that, given what NewDay had already done regarding Card 1 and Card 2, they would be looking only at the initial decision to open Card 1 for Mr B and at the loan application in September 2009.

The Investigator was satisfied the initial decision to give Mr B Card 1 in 2017 had been appropriate. But they didn't think NewDay had acted appropriately when agreeing to offer Mr B the loan in September 2019. In summary, they felt that NewDay had not done proportionate checks and, if it had, those checks would have suggested the loan was not affordable. NewDay disagreed, and so the complaint was passed to me.

I issued my provisional decision on this complaint on 5 December 2022 explaining why I did not think it should be upheld. NewDay agreed with my findings. Mr B responded to my decision but did not provide any additional evidence or make any specific arguments about why he disagreed with my findings.

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.

In my provisional decision I explained the following:

“Lenders should carry out reasonable and proportionate checks on any lending application. The level of those checks will vary depending on the type and amount of the lending.

Looking at the decision to give Mr B Card 1 in 2017, I’m satisfied that NewDay did carry out appropriate checks at that time. The initial limit on Card 1 was relatively low, and the data NewDay received at the time of the application indicated that Mr B was able to afford the credit limit he’d been offered. That data also didn’t suggest that Mr B was having any difficulty maintaining any other accounts he held or that he was overcommitted in terms of the debts he had with other parties.

The first limit increase on Card 1 was in June 2018. And in the months preceding that limit increase Mr B had been using payday loans and appeared to be in arrears with other creditors. For these reasons NewDay has said that it feels it should not have increased Mr B’s credit limit at that time, and has refunded all interest and charges incurred as a result of this limit increase and any subsequent limit increases. Having looked at the data NewDay has provided, I can understand why it reached this conclusion, and agree that what it has already done regarding this account is fair.

In February 2019 Mr B opened Card 2. When applying for this card Mr B stated his income was only £142 per month – although he did note that he had access to his partners income. NewDay’s affordability data from this time also shows that Mr B had made use of payday loans only a few months previously. NewDay has said that it feels Card 2 was not suitable for Mr B given what he had told it about his circumstances on his application and the affordability data it had at the time, And once again I can understand why NewDay reached that conclusion and consider what it has already done regarding this account is fair.

But NewDay’s conclusions on Card 1 and Card 2 above don’t automatically mean that any further lending like the loan here was unaffordable too. A loan is a different type of credit to a card and NewDay should have treated this application like any other – looking at the affordability of this in the same way as I’ve explained above.

In September 2019 Mr B applied for a loan for £7,500 with NewDay. On his application for this loan he stated that his income was £2,000 per month and that he had only very limited outgoings, leaving him with over £1,400 every month of disposable income. Mr B has told us more recently that his income at the time was actually somewhere between £1,100 and £1,800 but that his outgoings were significant and left him with little, if any, disposable income each month.

In summary, NewDay says it based its lending decision on information from the credit reference agencies and not solely on the information Mr B gave it about his income and expenditure at the time. And NewDay says the information it received indicated that Mr B was able to afford the loan repayments. But given the size of the loan Mr B was applying for, I’m not satisfied that the evidence we’ve seen shows NewDay did carry out thorough enough checks to ensure that the loan was affordable. Specifically, I can’t see that NewDay took steps to verify the information Mr B had given it about his income and expenditure, and I think that would have been a sensible step to take given the size of the loan and the fact that the information Mr B had given about his outgoings seemed to be incomplete or inaccurate.

I must now consider whether if NewDay had done more checks, it would have changed its decision to lend to Mr B. So I have reviewed bank statements Mr B has provided from the months prior to him taking out the loan and have also looked in more detail at the information on his credit file and at the credit cards he already held with NewDay. 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.

And with what I've seen so far, I don't think further verification of Mr B's income and outgoings would have changed NewDay's decision. I say this because the bank statements Mr B has provided, while they do show a slightly lower income than that detailed on the loan application, also don't clearly show any regular payments for bills or rent, suggesting that he did have limited outgoings. The statements provided do show, in July and August 2019, transfers to another account held in Mr B's name. And it's possible Mr B was paying for bills out of that other account. But we've asked for statements for that account from Mr B and he has not provided them.

So I don't think I can safely say that the statements from the time of the loan application suggest that Mr B's outgoings were as high as he has now told us they were. I also note that Mr B was maintaining his credit card accounts – and sometimes paying far above the minimum monthly repayments, and that his current account was operating in credit.

Mr B also had no adverse information recorded on his credit file at the time. He hadn't made use of payday loan companies for around ten months, and had no arrears with NewDay or with other lenders. So with all of this in mind, I don't think the overall picture regarding Mr B's finances here would have suggested that Mr B would have struggled to repay the loan or caused NewDay any concern.

Mr B was then able to maintain his loan payments for several years, and his credit file doesn't suggest he's had any other significant difficulties with managing his other accounts either. And this also suggests to me that the loan was affordable at the time it was given to Mr B. Mr B has said he used his credit cards to cover the repayments on his NewDay loan. But I've looked at credit card statements for Card 1 and Card 2 for six months following the loan being opened and can't see any sign that he used those accounts to cover his loan payments. From Mr B's credit file, I also can't see any signs of significant additional spending on his other credit cards in the months following him taking out the NewDay loan. So overall, this doesn't suggest that he was immediately struggling with the repayments.

I appreciate this will be very disappointing for Mr B, but with everything I've seen I'm not persuaded it was wrong for NewDay to lend to him at either the initial credit card application in 2017 or when he took out his loan in September 2019."

NewDay agreed with my findings. It's clear from Mr B's response to my provisional decision that he's unhappy with my findings, but he's not made any specific arguments or provided any additional information or evidence, that would make me change my decision. So on that basis I remain satisfied that NewDay has treated Mr B fairly and I won't be asking it to do anything more.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 31 January 2023.

Sophie Mitchell
Ombudsman