

## **The complaint**

Mr D complains that NewDay Ltd trading as Marbles lent to him irresponsibly by increasing his credit limit.

## **What happened**

In April 2016 Mr D opened a credit card account with NewDay with an initial credit limit of £250. In November 2016 NewDay increased the credit limit to £400. In February 2017 it was increased to £1000. In July 2017 it was increased to £1600 and in September 2017 it was increased to £2350.

Mr D complained that NewDay had lent irresponsibly. NewDay didn't agree, so Mr D brought his complaint to this service.

Our investigator reviewed everything. He said the first credit limit increase was fair but thought that NewDay hadn't carried out reasonable and proportionate checks before approving the second credit limit increase.

NewDay didn't agree. It said the second credit limit increase wasn't disproportionate to Mr D's income. It said the highest contractual payment requested on a fully utilised credit limit of £1000 was £40.84. It said that Mr D had sufficient disposable income to make an increase of £20 in his monthly repayments affordable.

## **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.

We've set out our general approach to complaints about irresponsible and unaffordable lending, including the key relevant rules, guidance and good industry practice, on our website. I've had this approach in mind when considering Mr D's complaint.

NewDay needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice, this means it should've carried out reasonable and proportionate checks to make sure Mr D could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of things, such as how much was being lent, the repayments amount, Mr D's borrowing history and his income and expenditure.

NewDay has provided details of the checks it carried out each time a credit limit increase was provided. It says that these checks show that it was reasonable to lend to Mr D.

### Credit limit increase 1 - £250 to £400 November 2016

I can see from the checks that Mr D's income was £17,000 per year (gross). This equates to around £1227 per month (net). NewDay has provided copies of Mr D's account statements which it used to check whether Mr D had exceeded the previous credit limit or missed any payments. NewDay also looked at what proportion of the credit limit Mr D had utilised and what payments he had made.

NewDay also took into account Mr D's credit search results to check things such as repayment plans, payday loan history, arrears and total external credit commitments.

At the time of the first credit limit increase, the credit search results show that Mr D had existing credit commitments of £1775 (excluding secured debt). There was no adverse information on his credit file in relation to the four credit accounts.

Since opening the NewDay credit card account in April 2016, Mr D had used the card regularly. He hadn't exceeded the credit limit and there were no missed payments. The payments Mr D had made were more than the monthly minimum payment.

Based on what I've seen, I think the checks carried out by NewDay before the first credit limit increase were reasonable and proportionate. I'm satisfied that the information gathered by NewDay showed that the credit was likely to be affordable for Mr D. Therefore, I don't think NewDay acted irresponsibly when it increased the credit limit from £250 to £400.

#### Credit limit increase 2 - £400 to £1000 February 2017

I can see that Mr D's income was still £1227 (net) per month. The credit search results showed that Mr D had existing credit commitments of around £1295 (excluding secured debt).

Looking at the NewDay credit card statements, Mr D had used the card regularly. He hadn't exceeded the credit limit or missed any payments. The payments made by Mr D on the account were more than the minimum payment.

I've thought about the credit limit increase in relation to Mr D's income. As I've said, Mr D's monthly income was around £1227. The credit limit was increased to £1000. Given that the level of credit was high in proportion to Mr D's income, I think NewDay should've carried out further checks to obtain information about Mr D's monthly expenditure, in order to make sure that the credit limit increase was affordable.

Because I don't think NewDay carried out reasonable and proportionate checks before approving the second credit limit increase, I've gone on to consider what reasonable and proportionate checks would've shown. To do this, I've looked at Mr D's bank statements for the three months preceding the second credit limit increase. These show that Mr D had average net monthly income of £1266 and average monthly outgoings of £1119. This left Mr D with monthly disposable income of around £147.

Taking into account the monthly minimum payment after the second credit limit increase, I don't think the second credit limit increase was affordable for Mr D, because it left him with insufficient monthly disposable income to meet any unplanned expenditure.

I've taken into account the points made by NewDay. The fact that a consumer may have more money coming in than going out isn't how we assess affordability. I need to be satisfied that Mr D could repay the additional credit sustainably. Based on what I've seen, I'm not satisfied that the credit was affordable.

Therefore, I don't think NewDay should've increased the credit limit from £400 to £1000.

#### **Putting things right**

Because I don't think NewDay should've increased the credit limit from £400 to £1000, I don't think it's fair for it to charge and interest or charges on balances which exceeded that limit. Mr D has, however, had the benefit of the money spent on the account, so I think he

should pay this back.

To put things right NewDay Ltd must:

Rework the account removing all interest and charges that have been applied to balances above £400

If the rework results in a credit balance, this should be refunded to Mr D 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 after 20 February 2017 in relation to the account from Mr D's credit file.

If, after the rework, the outstanding balance exceeds £400, NewDay should arrange an affordable repayment plan with Mr D for the remaining amount. Once Mr D has cleared the outstanding balance, any adverse information recorded after 20 February 2017 in relation to the account should be removed from Mr D's credit file.

\*HMRC require NewDay to deduct tax from any award of interest. NewDay must give Mr D a certificate showing how much tax has been taken off if he asks for this.

### **My final decision**

My final decision is that I uphold the complaint. NewDay Ltd must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 13 February 2023.

Emma Davy  
**Ombudsman**