

The complaint

Mrs B complains that NewDay Ltd trading as Fluid was irresponsible in its lending to her.

Mrs B is represented by a family member but for ease of reference I have referred to Mrs B throughout this decision.

What happened

Mrs B was provided with a Fluid credit card by NewDay in October 2019. The credit limit was £450. The credit limit was increased on two occasions. Mrs B says that the lending was unaffordable.

NewDay says that before lending it carries out checks based on the information it receives through the application process, checks with credit reference agencies and any history it has with the applicant. It says that at the time of application, Mrs B declared an annual income of £15,000 with additional household income of £11,000 and had £400 of unsecured debt. It says Mrs B had two defaulted accounts with the most recent default being 61 months before the application, had no adverse public records, payday loans or accounts in arrears. It says based on this it was reasonable to provide a credit card with credit limit of £450.

Mrs B's credit limit was increased to £1,700 in April 2020 and then to £2,950 in August 2020. NewDay says before the increases it carried out an evaluation of how Mrs B had been managing her account and other external accounts. It says Mrs B was contacted about the credit limit increases and could have opted out. It didn't accept the lending was irresponsible.

Our adjudicator partially upheld this complaint. She didn't think that the credit limit on Mrs B's credit card should have been increased beyond £450.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- The information gathered through the application process showed Mrs B as having an annual income of £15,000 and unsecured debt of £400. The credit search showed she had two defaults but as these were both historic (most recent 61 months previous to the application) and the credit results didn't show any accounts in arrears, adverse public records or payment arrangements, I didn't think the credit results meant that further checks were required.
- Noting the initial credit limit provided and Mrs B's declared income I thought the checks were reasonable and I didn't find I had enough to say the initial lending decision with a credit limit of £450 was unreasonable.
- In April 2020, Mrs B's credit limit was increased to £1,700. Although Mrs B had the choice to opt out of the credit limit increase it was NewDay's responsibility to ensure the additional lending was affordable. Mrs B's account management showed she didn't start to use the card in October 2019 and the first balance was in her January 2020 statement. Therefore, at the time of the limit increase, there was only three

months' worth of spending information available. During this period, Mrs B was charged an overlimit fee that was then reversed. Mrs B used just over 50% of the limit in the first months she started to use the credit card and then increased this to around the credit limit. While I saw Mrs B was making repayments and these were above the minimum requirement, I didn't think the account information was sufficient to give a clear indication that a limit increase, over three times the initial limit, would be sustainably affordable for Mrs B. Therefore, I thought that further checks should have taken place before this credit limit increase was applied.

- Given the size of the limit increase and the account information I thought it would have been reasonable to get a more thorough understanding of Mrs B's financial circumstances before increasing her credit limit. NewDay wasn't required to see Mrs B's bank statements, but in the absence of anything else I considered the information contained in these as a good indication of what NewDay would have been aware of had further checks taken place.
- I looked at bank statements for the three months leading up to the credit limit increase. These showed that Mrs B's monthly income was just under £620. She had committed payments for utilities, credit costs (excluding payments to her Fluid credit card) of around £100. She was making repayment towards her Fluid credit card and these appeared to be slightly above the minimum required. Mrs B was also spending over £400 a month in supermarkets. So, while this left her with a low disposable income, her accounts weren't showing signs of financial difficulty at this time and assessing the additional minimum repayment requirements, I didn't find I could say that further checks would have shown the credit limit increase to be unaffordable.
- Mrs B's credit limit was then increased to £2,950. Mrs B had exceeded the credit limit the month before the limit increase and noting the minimal disposable income available I thought a thorough check should have been carried out before any increase beyond £1,700 was applied. In this case the increase brought the limit to over six times the original credit amount. I looked through Mrs B's bank statements and these didn't show any significant changes in her income or expenses and so, based on previous calculations and noting the amount of credit being provided compared to her income, I didn't think that this increase should have been considered sustainably affordable.

Based on the above I upheld Mrs B's complaint in respect of the second credit limit increase.

No new information was provided in response to my provisional decision.

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 considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

As I set out in my provisional decision, I think the checks carried out before the credit card was provided with an initial credit limit of £450 were reasonable. As these didn't suggest the lending was unaffordable, I do not find NewDay was wrong to provide Mr B with the credit card account.

While I think further checks should have taken place before Mrs B's credit limit was increased to £1,700 in April 2020, having looked at the information provided, I do not find I have enough to say that had these checks happened the additional lending would have been found to have been unaffordable.

However, I do not think that Mrs B's credit limit should have been increased above £1,700. As I have previously explained, Mrs B had limited disposable income and considering the repayments on the increased credit limit against her income and noting her other expenses, I do not find that NewDay should have considered the credit limit increase in August 2020 to have been sustainably affordable for Mrs B.

Therefore, I uphold this complaint in respect to the second limit increase to £2,950 in August 2020.

Putting things right

As I don't think NewDay should have increased Mrs B's credit limit from £1,700, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit.

However, Mrs B has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, NewDay should:

- Rework the account removing all interest and charges that have been applied to balances above £1,700.
- If the rework results in a credit balance, this should be refunded to Mrs B 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 August 2020 regarding this account from Mrs B's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,700 NewDay should arrange an affordable repayment plan with Mrs B for the remaining amount. Once Mrs B has cleared the outstanding balance, any adverse information recorded after August 2020 in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mrs B a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that I uphold this complaint. NewDay Ltd trading as Fluid should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 7 February 2023.

Jane Archer
Ombudsman