

The complaint

Miss H complains that NewDay Ltd irresponsibly provided her with two credit cards she couldn't afford to repay. She's also unhappy with the credit limit increases (CLIs) it subsequently applied to the accounts.

What happened

In February 2019 NewDay opened a Marbles credit card account for Miss H. The credit limit was set at £600 and was increased on four occasions in all, the second of which was in July 2021 – when it went from £1,600 to £3,100.

In September 2021 NewDay opened an Aqua credit card account for Miss H. The credit limit was set at £1,200 and was increased once in February 2022.

In April 2022, Miss H complained to NewDay that it shouldn't have given her the credit cards or the subsequent CLIs. She said if NewDay had completed appropriate affordability checks it would have seen that the credit was unaffordable for her.

NewDay didn't uphold the complaint. It said it had carried out appropriate checks which showed Miss H could afford the various credit limits it had provided her with.

Unhappy with NewDay's response, Miss H complained to this service. Our investigator recommended that Miss H's complaint should be upheld in part. They said the credit was likely to be unaffordable for her from the time of the second CLI on the Marbles card and from the start of the Aqua account. That's because of the amount of credit offered in itself, and when viewed in the light of Miss H's other unsecured borrowing which had increased significantly in a relatively short space of time, and her low levels (and sometimes lack) of disposable income.

NewDay didn't agree with the investigator's findings. It focussed on the second CLI applied to the Marbles card, saying it conducted reasonable and proportional checks based on its review of the information provided to it by the credit reference agencies (CRAs) it used at that time. As such, the complaint was passed to me to review afresh.

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've decided to uphold the complaint in part. I'll explain why.

I'm not going to address the lending decision regarding the opening of the Marbles credit card, or the first CLI on that card, in detail here. That's because Miss H hasn't disputed those (or any other) aspects of the investigator's assessment – which weren't decided in her favour – issued before the complaint came to me. But for completeness I confirm that I broadly agree with the investigator's findings on those lending decisions and with their reasoning. In summary, I believe:

- The evidence NewDay obtained in February 2019 showed Miss H had a gross annual income of £35,000 but also a relatively low level of unsecured debt in comparison, which stood at £1,400.
- The credit checks NewDay carried out showed defaulted accounts but none in the 15 months leading up to the application. There was little else of concern in the results of its credit checks.
- There was little sign that Miss H was in financial difficulty at that time. The checks NewDay had carried out were, on balance, reasonable and proportionate.
- With a relatively low initial credit limit of £600, it follows that the minimum monthly payments would also have been relatively low.
- There was insufficient reason overall for NewDay to suspect, given the checks it had carried out and the available information, that Miss H might struggle to sustainably afford the credit card repayments.
- The first CLI to £1,600 was substantial but was applied more than two years after the account was opened.
- The credit information obtained by NewDay at the time of the first CLI showed Miss H's unsecured borrowing had increased significantly since the account started to more than £8,500. But it's likely further checks would have broadly showed her finances were in reasonable order and that the first CLI was affordable.

As I've alluded to above, prior to each lending decision, NewDay was required to ensure it carried out affordability checks. That's irrespective of whether, as NewDay argued in response to the investigator's assessment, its lending criteria were met. There isn't a set list of checks it needed to complete but it needed to ensure those checks were proportionate in the circumstances. What's considered proportionate will vary taking account of things such as (but not limited to) the amount of credit, the cost, and the borrower's circumstances.

NewDay says it understood Miss H had a gross annual income £35,000 in February 2019. At the time of the second CLI to £3,100 on the Marbles card, she'd only had use of the previous limit of £1,600 for four months. NewDay's enquiries from that time showed her unsecured borrowing had risen sharply to almost £11,000.

Taking account of the quick and substantial increase regarding the second CLI from the first, and the sharp rise in the level of Miss H's unsecured debt, I think NewDay ought to have become aware that she was likely to be struggling with her existing financial situation with a limit of £1,600.

When NewDay increased the limit to £3,100, the credit checks it completed showed Miss H's unsecured debt was more than seven times higher than it had been when the Marbles account started less than three years before.

Had NewDay carried out further checks at the time of the second CLI, it probably would have seen Miss H had very little – if any – disposable income on a month-to-month basis. Copy bank statements from that time show her account was regularly in deficit.

Given all of this, I think NewDay ought to have become aware that almost doubling Miss H's existing credit limit was likely to be unaffordable for her and would cause her financial difficulty. So, I don't believe NewDay made a fair lending decision when it increased the credit limit on the Marbles account to £3,100 despite carrying out the checks that it did.

It follows, by extension, that NewDay ought not to have increased its lending to Miss H after the first CLI on the Marbles credit card, either through that account or by offering the Aqua account.

Putting things right

NewDay should put things right for Miss H in relation to the second CLI on the Marbles credit card and from the start of the Aqua credit card account, albeit she's had the benefit of the money borrowed and so may need to repay the principal amounts. So, NewDay should:

- Rework the Marbles credit card account to ensure that, from July 2021, interest is only charged on the first £1,600 outstanding – to reflect the fact that no further credit limit increases should have been provided on that account.
- Rework Miss H's Aqua credit card account so that all the interest, fees and charges applied to it from the start are removed.
- If an outstanding balance remains on either account once these adjustments have been made, NewDay should contact Miss H to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any relevant adverse information should be removed from the credit file.

And

- If the refund means there's no remaining balance on either of the accounts, any extra should be treated as overpayments and returned to Miss H.

And

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.

† HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Miss H a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons given, I've decided to uphold this complaint in part. I require NewDay Ltd to put things right for Miss H as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 30 May 2023.

Nimish Patel
Ombudsman