DRN-4126527

The complaint

Miss S is unhappy as she feels NewDay Ltd provided credit to her irresponsibly.

What happened

Between December 2018 and December 2021, Miss S successfully applied to NewDay for six differently branded credit accounts. During this time, NewDay also increased the credit limits available to Miss S on several occasions.

In April 2022, Miss S raised a complaint with NewDay as she felt they'd provided credit to her which hadn't been affordable for her, and that this should have been evident to NewDay, had they undertaken checks into her financial position before providing that credit to her.

NewDay responded to Miss S's complaint and explained that they had undertaken checks into her financial position before providing credit to her. NewDay also explained that, on review, they continued to feel that the majority of the credit provisions hadn't been provided irresponsibly by them.

However, NewDay did acknowledge that two of the credit provisions shouldn't have been provided to Miss S, and so they reimbursed interest incurred on the accounts in question for when the balance of the account was greater than the credit limit they felt was fair. Miss S wasn't satisfied with NewDay's response, so she referred her complaint to this service.

One of our investigators looked at this complaint. They felt that all the provisions of credit from June 2019 onwards – which was all but three of the provisions of credit – had been provided by NewDay to Miss S irresponsibly, and so they recommended that this complaint be upheld in Miss S's favour on that basis. NewDay didn't agree with the view of this complaint put forwards by our investigator, so the matter was escalated to an ombudsman for a final 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.

I issued a provisional decision on this complaint on 11 April 2023 as follows:

> *It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be, that before approving a customer for a new line of credit, or before increasing the amount of credit available to a customer on an existing line of credit, the business would undertake reasonable and proportionate borrower focussed checks to ensure that any credit being offered to a customer is affordable for that customer at that time.*
>
> *NewDay believe that they did that here and note that at the time of the applications they took information from Miss S about her employment status and annual income, as well as obtained information about her from a credit reference agency to get a*

better understanding of her wider financial position. Additionally, NewDay also note that before increasing Miss S's existing lines of credit, they again obtained information from a credit reference agency to refresh their understanding of her financial position.

Between December 2018 and December 2021, NewDay provided new or additional credit to Miss S on 14 occasions. Accordingly, I've considered each of these credit provisions in turn.

07 December 2018 – 'M' branded credit account application

When Miss S applied to NewDay for a new credit account in December 2018, she said that she was employed with a gross annual income of £16,500. Miss S also confirmed that she had existing unsecured credit of £900 at that time.

Additionally, when NewDay checked Miss S's credit file, they saw that Miss S didn't have any active credit accounts that were in arrears at that time. And, while Miss S did have defaults and other adverse public records on her credit file, these were all from over three years ago. As such, NewDay made the decision to approve Miss S's credit application and they issued an M branded credit card to her with an initial credit limit of £1,200.

In providing this new line of credit to Miss S, NewDay were increasing Miss S's potential credit exposure to £2,100 - which doesn't seem unreasonable to me. I say this because, while Miss S's annual income at that time was relatively low – which could mean that Miss S potentially didn't have a large amount of disposable income available to her from which to repay spent credit – I feel that her financial circumstances at this time suggest that would most likely have been able to afford the monthly credit repayments that might have become due, had she used the full amount of the credit available to her.

12 December 2018 – 'D' branded credit account application

Soon after successfully applying for the M branded credit account, Miss S applied to NewDay for a D branded credit account. Again, she told NewDay that she was employed with a gross annual income of £16,500 and had existing unsecured credit of £900. And again, when NewDay checked Miss S's credit file, they saw the same information that they'd seen regarding Miss S's M branded application a few days previously.

Accordingly, NewDay approved Miss S's application and issued a D branded credit card with an initial credit limit of £600. This meant Miss S's potential credit exposure was now £2,700, which again doesn't seem unreasonable to me, for the reasons previously explained above.

06 May 2019 – 'M' branded credit limit increase

In May 2019, NewDay increased the credit limit on Miss S's M branded account by £1,000, from £1,200 to £2,200.

In the three months leading up to the credit limit increase, Miss S had maintained the balance of her M and D accounts considerably below their respective credit limits and had made monthly payments to both of those accounts that were greater than the minimum monthly payments required. As such, I'm satisfied that there was nothing in how Miss S had managed her NewDay accounts up to that time that should *reasonably have given NewDay any cause to suspect that she couldn't afford the credit she already had.*

Additionally, Miss S's credit file didn't appear to show that Miss S had taken any further credit from other credit providers. And while this further £1,000 credit provided by NewDay meant that Miss S's potential credit exposure was now approximately £3,700, this amount again doesn't seem unreasonable to me, given Miss S's income.

<u>29 June 2019 – 'Z' branded credit account application</u>

The month after NewDay increased the credit available to Miss S on her M branded credit account, Miss S applied for a new Z branded credit account with NewDay. In her application, Miss S told NewDay that she was employed with an increased annual income of £18,500. Miss S also told NewDay that she had existing unsecured credit of £1,500.

Additionally, when NewDay reviewed Miss S's credit file it continued to show that none of her existing credit accounts were in arrears, with the adverse credit information that was present on Miss S's credit file now even further in the past. Accordingly, NewDay approved Miss S's new application and issued a Z branded credit card to Miss S with an initial credit limit of £900.

The provision of this new credit meant that Miss S's potential credit exposure with NewDay alone was now approximately £3,700, with potential further exposure from other credit providers. But I still feel this level of potential credit exposure was most likely affordable for Miss S at that time, especially given her increase in annual income from £16,500 to £18,500.

<u>05 July 2019 – 'G' branded credit account application</u>

Less than a week after Miss S applied for the Z branded account, she applied to NewDay again for a fourth account – a G branded account. And again, Miss S told NewDay that she was employed with an annual income of £18,500 with a slightly increased amount of existing unsecured credit at £1,800.

As mentioned, this was the fourth NewDay account that Miss S was applying for. And her application would be successful with NewDay providing a G branded credit card to her with an initial credit limit of £2,000 – which is a relatively large initial credit limit, especially in consideration of Miss S's other NewDay accounts.

In the month immediately preceding this application, Miss S had been maintaining her older M and D branded accounts approximately £1,300 and £300 below the credit limits available to her on those accounts respectively. And Miss S had just opened a new line of credit with NewDay, providing her with a further £900 of potential credit. This meant that, across the three accounts, Miss S had potential available credit of £2,500.

So, it seems strange that Miss S would apply for, and be granted, a fourth line of credit to the amount of a further £2,000, given the existing available credit she already had available to her. And it's difficult not to feel that NewDay should reasonably have recognised this, and that they should have asked Miss S about it. However, given that Miss S appeared to be managing her financial position without incident at that time, I don't feel it can be said with any certainty that any discussion NewDay held with Miss S here would or should have given them any reasonable cause for concern.

Additionally, it's notable that in regard to the NewDay credit that Miss S was utilising in June 2019 – which was a combined amount of roughly £1,150 – the combined minimum monthly payments for that amount was approximately £30. This means that, if Miss S were to have suddenly utilised the further £4,500 available NewDay credit she had available to her following this fourth application, her combined minimum monthly payment was unlikely to be significantly more than £160.

But this £160 per month payment referred to above would be a minimum payment only, and as such if Miss S did have such a credit exposure and did make such a minimum payment, it would potentially take her many years to clear the balance of her account, during which time she'd pay a considerable amount of interest.

Accordingly, I feel that a more sustainable payment amount in these circumstances would be closer to £200 per month. And while I feel that this would most likely have been affordable for Miss S at that time, given her income and her financial position, this potential sustainable repayment on the full credit amount available to Miss S is drawing closer to what I feel would potentially become unaffordable for Miss S to realistically have maintained.

<u>*16 July 2019 – 'D' branded credit limit increase*</u>

Not long after Miss S successfully applied for the new Z and G branded accounts, NewDay increased the credit limit available to Miss S on her D branded account – from £600 to £1,500.

This meant that Miss S's total NewDay potential credit exposure was now £6,600 and had more than doubled from the amount it had been only a few weeks earlier, before the two new account applications, when it had been £2,800.

Again, this is pushing the limits of what I feel was reasonably affordable for Miss S here, given her relatively low annual income and the potential combined amount that she may have had to pay to repay her combined credit in a sustainable manner.

<u>*03 September 2019 – 'M' branded credit limit decrease*</u>

Indeed, NewDay themselves appear to have recognised that the amount of credit provided to Miss S may have been unsustainable for her, because in September 2019 they reduced the credit limit on Miss S's 'M' branded account by £900. This had the effect of reducing Miss S's total NewDay potential credit exposure to £5,700.

<u>*14 January 2020 – 'D' branded credit limit increase*</u>

However, in January 2020, NewDay increased the credit limit available to Miss S on her D branded credit account by £1,000 – from £1,500 to £2,500.

This increased Miss S's total NewDay potential credit exposure up to £6,700. And, given that Miss S's relatively low annual income – which she would confirm as remaining at £18,500 in her application for a fifth NewDay account in March 2020 – as well as that Miss S appears to have had some other credit exposure to other providers, I don't feel that this was a sustainable amount of credit for Miss S to be provided with at that time.

Additionally, following this, NewDay then proceeded to provide Miss S with a further six new or additional credit provisions, until her total NewDay potential credit *exposure reached £14,250 in December 2021 – which is more than double the £6,700 total amount I consider likely to have been unsustainable for Miss S as of the credit limit increase in January 2020.*

There also doesn't appear to have been any changes in Miss S's financial circumstances to have merited these further provisions of credit, given that Miss S again confirmed to NewDay in November 2021 that her annual income remained at £18,500. And, as mentioned earlier, given that Miss S's income was relatively low, I feel that there's a greater chance that Miss S wouldn't have had a great deal of disposable income available to her, after her essential and priority spending.

NewDay may argue that Miss S hadn't displayed any evidence of struggling financially, having incurred no over-limit or late payment fees on her accounts, and appeared to be making monthly payments without incident. But Miss S didn't utilise the full amount of credit that NewDay provided to her, and if she had done – which she was able to do at any time – I feel that it's more likely than not that she would have struggled to sustainably repay the increased monthly payments that would then have become due.

As such, my provisional decision here is that I'll be upholding this complaint in Miss S's favour on the basis that I feel that all new or additional provisions of credit made by NewDay to Miss S after the credit limit decrease of September 2019 were provided irresponsibly.

In my provisional decision letter, I gave both Miss S and NewDay the opportunity to respond and provide any comments or new information they might wish me to consider before I moved to issue a final decision.

Neither Miss S nor NewDay provided any response. As such, I see no reason not to issue a final decision upholding this complaint in Miss S's favour on the basis explained above. And I therefore confirm that I do uphold this complaint in Miss S's favour on that basis accordingly.

Putting things right

NewDay must reimburse to Miss S's 'M' branded account all interest, fees, and charges incurred or accrued on any portion of the account balance above £1,300 from the point of the credit limit increase beyond £1,300 that took place in December 2021.

NewDay must reimburse to Miss S's 'D' branded account all interest, fees, and charges incurred or accrued on any portion of the account balance above £1,500 from the point of the credit limit increase beyond £1,500 that took place in January 2020.

NewDay must reimburse to Miss S's 'Z' branded account all interest, fees, and charges incurred or accrued on any portion of the account balance above £900 from the point of the credit limit increase beyond £900 that took place in January 2020.

NewDay must reimburse all interest, fees, and charges incurred or accrued on Miss S's 'Q' and 'F' branded accounts, that were opened in March 2020 and November 2021 respectively.

No reimbursements are required on the 'G' branded account.

If any of these reimbursements result in an account having a credit balance in Miss M's favour, NewDay must apply 8% simple interest to that balance from the date it fell into credit. NewDay may then use this amended balance to clear any outstanding balances Miss S may have on her other NewDay accounts. If no balances remain outstanding to be cleared, NewDay must pay any credit amount remaining to Miss S.

Finally, NewDay must remove any adverse credit reporting relating to Miss S's accounts from January 2020 onwards, on the provision that Miss S no longer has a balance outstanding on that account to repay. If Miss S does have a balance outstanding on an account, NewDay must make the credit file amendments after she has cleared that balance.

My final decision

My final decision is that I uphold this complaint against NewDay Ltd on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 9 June 2023.

Paul Cooper
Ombudsman