

The complaint

Mr K complains that NewDay Ltd lent to him irresponsibly.

What happened

In December 2019 Mr K applied for an Argos card. NewDay approved the application and gave Mr K a card with an initial credit limit of £500. The credit limit was increased to £500 in December 2020, to £3000 in March 2021 and to £4200 in August 2021.

Mr K complained that NewDay had lent to him irresponsibly.

NewDay didn't uphold the complaint. It said it had carried out proportionate checks before lending to Mr K.

Mr K wasn't happy with the response and brought his complaint to this service.

Our investigator upheld the complaint. She said the initial lending decision was fair but that the subsequent credit limit increases weren't affordable for Mr K.

NewDay accepted the investigator's view but Mr K remained unhappy, so I've been asked to make 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.

We've set out our approach to complaints about irresponsible and unaffordable lending on our website. I've had this approach in mind when considering Mr K's complaint.

Before agreeing to lend, the rules say that NewDay had to complete reasonable and proportionate checks to ensure that Mr K was able to sustainably repay what was being lent. These checks needed to be focussed on the borrower's circumstances and could take into account factors such as the amount of credit, the total sum repayable, the amount of repayments and the consumer's individual circumstances.

There's no set list of checks a lender must complete. But lenders are required to consider the factors I've mentioned above when deciding what's reasonable and proportionate.

Account opening

Mr K declared annual income of £20,000 when he applied for the account. NewDay carried out a credit check and found that Mr K had unsecured debt of around £5,800, with no adverse information on his credit file.

Based on what I've seen and considering the low credit limit, I think NewDay carried out reasonable and proportionate checks before opening the account. There was nothing in the information gathered from the checks to suggest that Mr K wasn't likely to be able to

sustainably repay the credit or that the repayments would be unaffordable for him. Based on what I've seen I think the decision to give Mr K the account with a £500 credit limit was fair.

Credit limit increases

I've gone on to consider the credit limit increases in December 2020, March 2021 and August 2021.

The credit checks carried out by NewDay in December 2020 showed that Mr K had unsecured debt of around £12,223. This was a significant increase in his unsecured debt from when he applied for the account some 11 months before. A significant proportion of Mr K's income was being used to repay unsecured debt. I think this should've prompted NewDay to carry out further checks to make sure the credit limit increase was affordable for Mr K.

I can see that Mr K was late making payments to the account in April 2020 and November 2020, and that he had requested a payment freeze on the account between April and July 2020. These are also factors which should've prompted NewDay to carry out further checks to make sure the credit limit increase was affordable for Mr K.

I've looked at some bank statements provided by Mr K to see what reasonable and proportionate checks would've shown. These statements are from February 2020 as opposed to the months immediately prior to the credit limit increase. However, I'm satisfied that the statements show that Mr K was in relation in his overdraft and incurring significant fees due to exceeding the overdraft limit and having direct debits returned as unpaid. I think this information, together with the increase in unsecured debt, should've caused NewDay to have concerns that the credit limit increase wasn't affordable for Mr K.

I've also considered the further credit limit increases. Mr K's unsecured debt had increased further by this time and he continued to incur fees for exceeding his overdraft limit. There's nothing to suggest that his financial position was improving. I don't think the further credit limit increases were affordable for him.

Putting things right

Mr K has had the benefit of the money that was lent to him so I think it's fair that he repays this. But I don't think it's fair that he should pay interest and charges incurred as a result of the credit limit increases.

NewDay Ltd should:

Refund the interest and charges Mr K has paid on balances above £500

If the borrowing is still in place, reduce the capital balance by the amount above.

If, after this, there is a capital balance outstanding, NewDay should ensure that it isn't subject to any historic or future interest and charges.

Alternatively, if, after this, there is a positive balance, this should be given back to Mr K together with 8% simple interest*

Once the balance has been cleared, NewDay should remove any adverse information on Mr K's credit file as a result of the interest and charges

*HMRC may require NewDay to deduct tax from this interest. If it does, NewDay must give

Mr K a certificate showing how much tax has been deducted.

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 K to accept or reject my decision before 3 July 2023.

Emma Davy
Ombudsman