

The complaint

Mrs Z complained that NewDay Ltd lent to her irresponsibly.

What happened

In February 2021 Mrs Z applied for a Fluid credit card account. NewDay approved the application and gave Mrs Z a card with an initial credit limit of £600. The credit limit was increased to £1350 in July 2021, to £2600 in September 2021 and to £3850 in January 2022.

Mrs Z complained that NewDay had lent to her irresponsibly.

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

Our investigator upheld the complaint. They said that the third credit limit increase wasn't affordable because of Mrs Z's financial circumstances at the time.

NewDay didn't respond to the investigators view 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 Mrs Z's complaint.

Before agreeing to lend, NewDay needed to complete reasonable and proportionate checks to ensure that Mrs Z could sustainably repay what was being lent to her.

There's no set list of checks that a lender has to complete. But lenders must have regard to things like the amount being lent, the total amount repayable, the monthly repayment and the consumers individual circumstances when deciding what's reasonable and proportionate.

I've looked at the checks carried out by NewDay prior to each lending decision.

Account opening

Mrs Z declared annual income of £27,656 when she applied for the card. She also declared unsecured debt of £10,200.

NewDay carried out a credit check. This showed that Mrs Z had three defaults, the last one having been registered over 22 months ago. The credit check showed no accounts in arrears, no payday loans and no CCJ's.

Based on what I've seen, I think the checks carried out were reasonable and proportionate.

The information gathered from the checks didn't suggest that Mrs Z was struggling to repay her debts or that she was overly reliant on credit. I think the lending decision was fair.

First credit limit increase to £1350 and second credit limit increase to £2600

NewDay hasn't provided information about the checks it carried out before increasing the credit limit. Given the significant increase in the credit limit and the level of Mrs Z's unsecured debt in relation to her income, I think it would've been proportionate for NewDay to carry out further checks to gain a better understanding of Mrs Z's financial circumstances.

In order to see what reasonable and proportionate checks would've shown, I've looked at Mrs Z's bank statements for the period leading up to the lending decision.

The statements show that Mrs Z had sufficient disposable income to afford the repayments based on the increased credit limit.

I've also looked at how Mrs Z managed the account since it was opened. Mrs Z hadn't missed any payments and had regularly made payments which exceeded the minimum monthly payment.

Third credit limit increase to £3850

NewDay hasn't provided information about the checks it carried out before increasing the credit limit. Given the significant increase in the credit limit and the level of Mrs Z's unsecured debt in relation to her income, I think it would've been proportionate for NewDay to carry out further checks to gain a better understanding of Mrs Z's financial circumstances.

In order to see what reasonable and proportionate checks would've shown, I've looked at Mrs Z's bank statements for the period leading up to the lending decision.

The statements show that Mrs Z didn't have sufficient disposable income to afford the repayments based on the increased credit limit. So it was unlikely that she would be able to sustainably repay the credit. Because of this I don't think the lending decision was fair.

Putting things right

I've already explained why I don't think NewDay should've increased the credit limit in January 2022.

NewDay should:

Remove any interest and charges incurred after 19 January 2022 as a result of the credit limit increase

Work out how much would've been owed after this adjustment. Any repayments made by Mrs Z since 19 January 2022 should be used to reduce the adjusted balance

If this clears the adjusted balance, any funds remaining should be refunded to Mrs Z with 8% simple interest per year. NewDay should also remove any adverse information from Mrs Z's credit file in relation to the account from 19 January 2022 onwards.

If, after adjustment, an outstanding balance remains, NewDay should arrange an affordable payment plan with Mrs Z. Once Mrs Z has cleared the balance NewDay should also remove any adverse information from Mrs Z's credit file in relation to the account from 19 January 2022 onwards.

HMRC requires NewDay to deduct tax from any award of interest. NewDay must give Mrs Z a certificate showing how much tax has been taken off if she asks for one.

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 Mrs Z to accept or reject my decision before 11 August 2023.

Emma Davy
Ombudsman