

The complaint

Miss F complains that NewDay Ltd irresponsibly provided her with a credit card account she couldn't afford. She's also unhappy with the two credit limit increases (CLIs) it subsequently applied to the account.

What happened

In October 2016 NewDay opened a credit card account for Miss F. The credit limit was set at £600 and was increased on two occasions, in February and June 2017.

In March 2023, Miss F complained to NewDay that it shouldn't have given her the credit card or the subsequent CLIs. She said if NewDay had completed appropriate affordability checks in 2016 and 2017 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 F could afford the various credit limits it had provided her with.

Unhappy with NewDay's response, Miss F complained to this service. Our investigator recommended that Miss F's complaint should be upheld. They said the credit was likely to be unaffordable for her from the start and asked it to put things right for her.

NewDay didn't agree with the investigator's findings. It said its products were aimed at providing those with a limited or adverse credit history with access to credit. Although multiple defaults were recorded on Miss F's credit file, the last was added 22 months before the start of the credit, and her application fell within its lending policy.

Because the investigator couldn't resolve the case informally, it 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 uphold the complaint. I'll explain why.

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.

From Miss F's application, NewDay was aware she was employed and had a gross annual income of £24,800 in 2016. I note that NewDay didn't hold any details of her expenditure in relation to things like housing or day-to-day living expenses. The credit checks NewDay carried out showed she held four active accounts and very low levels of unsecured debt at

£100. However, the checks also revealed six defaults, with the most recent being added 22 months prior to the application with NewDay.

Given the lack of information gathered about Miss F's regular expenditure and the number of defaults on her credit file, while bearing in mind how recently at least one of them was recorded, I think it would have been reasonable for NewDay to carry out further affordability checks.

Had NewDay carried out further checks in 2016, it probably would have seen Miss F had very little – if any – disposable income on a month-to-month basis leading up to the application. This is evidenced by the copy bank statements from the time I've been provided with.

Given all of this, I think NewDay ought to have become aware that providing Miss F with £600 worth of credit was likely to be unaffordable for her and might cause her financial difficulty. So, I don't believe NewDay made a responsible lending decision when it offered her the account in 2016, despite carrying out the checks that it did and its lending criteria.

It follows, by extension, that NewDay ought not to have increased its lending to Miss F after 2016 as it did.

Putting things right

NewDay should put things right for Miss F from the start of the 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 Miss F's 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 the account once these adjustments have been made, NewDay should contact Miss F 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 the account, any extra should be treated as overpayments and returned to Miss F.

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 F a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons given, I uphold this complaint. I require NewDay Ltd to put things right for Miss F as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 1 February 2024.

Nimish Patel
Ombudsman