

The complaint

Miss W complains that NewDay Ltd acted irresponsibly in lending her a credit card account.

What happened

Miss W took out a credit card with NewDay in September 2018. The initial credit limit was £450. The credit limit was increased several times as follows:

- February 2019 from £450 to £1,700
- June 2019 from £1,700 to £2,700
- October 2019 from £2,700 to £4,450
- August 2020 from £4,450 to £5,200

In 2022, Miss W complained – via a representative – that the account had been unaffordable for her. NewDay didn't issue a final response to Miss W's complaint within the timeframe set by the regulator, so Miss W referred her complaint to our service.

NewDay didn't respond to our service's initial requests for information in a timely manner, so our Investigator issued an opinion based on information provided by Miss W. He upheld the complaint, as he thought Miss W's credit report showed signs she was experiencing financial stress prior to her taking out the credit card with NewDay.

NewDay then provided our service with information about the checks it had conducted prior to offering the account, and before each credit limit increase. It said it thought it had acted reasonably.

Our Investigator considered things again, and continued to think the complaint should be upheld in full. NewDay disagreed. In summary, it said it thought the checks it had conducted were proportionate and showed no signs of financial stress.

As our Investigator couldn't resolve things, the case was passed to me to decide. I issued a provisional decision. In summary, I said I thought the checks NewDay had conducted at the outset were proportionate and it had reasonable grounds to consider that the initial credit limit was affordable and sustainable for Miss W. I said that I thought NewDay should have conducted further checks before offering the credit limit increases, but having reconstructed what information it likely would have found, I thought it still would have considered the lending to be affordable. I therefore did not uphold the complaint.

NewDay did not respond to the provisional decision by the deadline.

Miss W's representative disagreed. In summary, it said that the Investigator had said there were pay day loans in arrears in the months prior to Miss W's application for the credit card. Miss W's representative referred to the credit report they hold, which they said showed that in the six months prior to the application she'd taken out one high cost loan, another unsecured loan, had one late payment and had gone over her credit limit with other lenders on six occasions. Miss W's representative also thought her debt to income ratio was high at the time of application. It also thought that NewDay had offered credit limit increases in quick

succession despite Miss W regularly only making the minimum payment, using the card for cash advances on several occasions, and going over limit on two occasions.

The case has now been returned to me to issue 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.

In my provisional decision, I said:

"I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that when NewDay first offered the account – and each time it offered a credit limit increase – it needed to complete reasonable and proportionate checks to satisfy itself that Miss W would be able to repay the debt in a sustainable way, without borrowing further elsewhere. As these were open ended accounts, NewDay also needed to consider whether Miss W would be able to repay the debt within a reasonable period.

Account opening

When Miss W first applied for the credit card in September 2018, the credit checks NewDay conducted found she had around £3,700 in unsecured debt across four accounts. The credit reference data showed her accounts were up to date, and there was no historic adverse data – such as defaults or county court judgments.

NewDay has said it also used information from credit bureaus to model Miss W's income based on Current Account Turnover (CATO), which gave an income of £21,500 a year – or around £1,500 a month. When she applied for the credit card, Miss W told NewDay she was living with her parents. NewDay said it used ONS data to model Miss W's expenditure on essential living expenses, which gave a figure of £0 a month. That would mean Miss W had £1,500 a month to service her existing credit commitments and as disposable income.

NewDay's underwriting comments note high indebtedness, but that it thought a credit limit of £450 would be affordable for Miss W.

As I've explained above, NewDay needed to conduct proportionate checks to satisfy itself that Miss W would be able to repay the debt in a sustainable way, within a reasonable period. In this instance, NewDay offered an initial credit limit of £450. So, sustainable repayments of around 5% of the initial credit limit – allowing Miss W to repay the interest charged and part of the capital if the card were utilised to its limit – would be around £25.

Our Investigator thought that Miss W's full credit report showed that her borrowing had increased in the months leading up to the application with NewDay and that Miss W was heavily reliant on credit. He also referred to cash withdrawals from other lenders.

But, for me to think that NewDay should have considered further information before offering the account, I would need to think that the checks it conducted weren't proportionate, or that it found information that should have prompted it to conduct further checks. In this instance, I think the checks NewDay conducted were proportionate to the level of credit it offered, and I don't think it found any information that should have given it cause for concern. I think that, based on the information it found, it was reasonable that NewDay considered the credit limit of £450 to be sustainable and affordable for Miss W.

Credit limit increases in February and June 2019

Before offering the credit limit increases in February and June 2019, NewDay conducted external credit checks and considered the conduct of the account held with it.

The account history shows that Miss W was making her payments on time, and was managing more than the minimum payment. The external credit checks NewDay conducted prior to offering the limit increase in February 2019 showed that Miss W had a revolving credit balance (such as credit cards) of around £380 and a non-revolving credit balance (such as personal loans) of around £250. The external checks NewDay conducted prior to offering the limit increase in June 2019 showed that Miss W had a revolving credit balance of around £500, and a non-revolving credit balance of around £450.

In both instances, the checks showed Miss W's existing credit commitments were up to date.

The credit limit increases in February and June 2019 were both significant. The first almost tripled the credit available to Miss W, and the second added a further £1,000. Considering this, along with the level of Miss W's income, I think it would have been proportionate for NewDay to also ask Miss W questions about her income and expenditure on each occasion, to satisfy itself the credit limit increases were affordable and sustainable for her.

I've considered Miss W's bank statements for the three months prior to each credit limit increase, to reconstruct what she likely would have told NewDay if it had asked her questions about her income and expenditure.

Having done so, I've found that in the months prior to February 2019, Miss W's average income was around £1,700 a month. She had fixed payments towards loans of around £255. Her expenditure on essential living expenses (such as rent, utilities, council tax and food) was around £630.

This meant she had disposable income of around £815. Sustainable repayments of around 5% of the new credit limit with NewDay, allowing Miss W to repay the interest charged and part of the capital if the card were utilised to its limit, would be around £85 a month. So, I think this was sustainably affordable for her given her level of disposable income.

In June 2019, Miss W's average income was just under £2,000. Her fixed payments towards loans remained the same – around £255. She made average repayments of £30 a month towards her other credit card. Her expenditure on essential living expenses was around £760.

This meant that her disposable income was around £955. Sustainable repayments towards the new credit limit with NewDay would be around £135. So, I think this was sustainably affordable for her.

Overall, in both instances, I think that if NewDay had conducted further checks, it would still have considered the credit limit increases to be affordable and sustainable for Miss W.

Credit limit increase in October 2019

Before offering the credit limit increases in October 2019, NewDay conducted external credit checks and considered the conduct of the account held with it.

The account history shows that Miss W was making her payments on time and more than

the minimum. The external credit checks NewDay conducted prior to offering the limit increase in October 2019 showed that Miss W had a revolving credit balance (such as credit cards) of around £1,300 and no fixed credit commitments (such as personal loans).

The checks showed Miss W's credit commitments were up to date.

The credit limit increase in October 2019 was significant, a further £1,750. And it meant that Miss W's credit limit had increased from £450 to £4,450 – almost ten times – within eight months. I think at that point, it would have been proportionate for NewDay to verify Miss W's income and expenditure by asking her for her bank statements.

I've considered Miss W's bank statements for the three months prior to this period. I've found that Miss W's average income was £1,850 a month. Her payments to fixed credit commitments were around £310 a month, and her payments towards her credit cards averaged around £62 a month. Miss W's expenditure on essential living expenses was around £860.

This meant Miss W had disposable income of around £618. Sustainable repayments towards the new credit limit with NewDay, of around 5% of the new proposed credit limit, allowing Miss W to repay the interest charged and part of the capital if the card were utilised to its limit, would be around £225.

So, although I think NewDay should have conducted further checks to verify Miss W's income and expenditure before offering this credit limit increase, I think it still would have considered that it was sustainably affordable for her.

Credit limit increase in August 2020

Before offering the credit limit increases in August 2020, NewDay conducted external credit checks and considered the conduct of the account held with it.

The external checks NewDay conducted prior to offering the limit increase in August 2020 showed that Miss W had a revolving credit balance of around £4,650, and a non-revolving credit balance of around £9,300. The account history shows that Miss W was making her payments on time and more than the minimum. The checks showed Miss W's credit commitments were up to date.

I think given the level of Miss W's income and existing credit commitments, it would have been proportionate for NewDay to verify her income and expenditure prior to offering the further credit limit increase, to satisfy itself the new credit limit would be affordable and sustainable for her.

I've considered Miss W's bank statements for the three months prior to this period. I've found that Miss W's average income was £2,300 a month. Her payments to fixed credit commitments totalled around £515 a month, and Miss W's expenditure on essential living expenses was around £870.

This meant that Miss W had around £950 in disposable income. NewDay was proposing a credit limit of £5,200. And she had balances of around £4,650 on revolving credit accounts elsewhere. So, if she used the NewDay account up to its limit, she would have a total revolving credit of £9,850. Sustainable repayments of around 5% of that amount – allowing Miss W to repay the interest, and reduce the capital to repay the debt within a reasonable period – would be around £495.

So I think that if NewDay had conducted further checks, it would have considered that the

new credit limit was affordable and sustainable, given Miss W had around £950 in disposable income.

Overall, on balance, I think that if NewDay had conducted proportionate checks on each occasion, it would have considered each of the limit increases to be affordable and sustainable for Miss W. For the reasons I've explained, I am not upholding Miss W's complaint."

I've read the full file again and considered the comments made by Miss W's representative.

As I explained in my provisional decision, before offering the account or any credit limit increases, NewDay needed to complete reasonable and proportionate checks to satisfy itself that Miss W would be able to repay the debt in a sustainable way and within a reasonable period of time, without borrowing further elsewhere.

Account opening

I've considered the comments made by Miss W's representative, and I continue to think the checks NewDay conducted were reasonable and proportionate and it reasonably considered the initial credit limit to be sustainably affordable. I'll explain why.

The initial limit NewDay offered was relatively low, £450. As I explained in my provisional decision, sustainable repayments of around 5% of the initial credit limit – allowing Miss W to repay the interest charged and part of the capital if the card were utilised to its limit – would be around £25.

Our Investigator thought that the credit file provided by Miss W's representative showed she had payday loans in arrears at around the time of the application for the NewDay card. However, I could not see that was the case.

The checks NewDay conducted found that Miss W had taken out two payday loans in the six months prior to taking out the credit card, and found no pay day loans in arrears during that period. As Miss W's representative has noted, the credit file she has provided shows one payday loan taken out during the same period – which was not in arrears during that time.

Miss W's representative referred to other factors from Miss W's credit file which it thought showed signs of financial stress. These factors were not apparent from the checks NewDay conducted.

As I explained in my provisional decision, for me to think that NewDay should have considered further information before offering the account, I would need to think that the checks it conducted weren't proportionate, or that it found information that should have prompted it to conduct further checks.

Given Miss W's income and living situation, I think the checks NewDay conducted were reasonable and proportionate, I don't think it found any information that should have given it cause for concern or prompted it to conduct further checks. And I think it was reasonable that NewDay considered the credit limit of £450 to be affordable and sustainable for her.

Credit limit increases

Miss W's representative said that NewDay increased the limit three times in a period of nine months, and that Miss W made seven cash advances during that period. It also said she was regularly making the minimum payment, and went over the credit card limit twice prior to the last credit limit increase.

As I explained in my provisional decision, I do not think the checks conducted by NewDay were reasonably and proportionate given how large the increases in the credit limit it offered were. I think the factors Miss W's representative has pointed to would also be prompts that the checks it conducted were not proportionate.

I explained in my provisional decision what checks I thought would have been proportionate for each credit limit increase. I continue to think those checks would have been proportionate on each occasion. As I explained in my provisional decision, had NewDay conducted proportionate checks – for earlier credit limit increases by taking declarations about Miss W's income and expenditure, and later by verifying it – NewDay would have found the increased credit limits were sustainably affordable for her.

For these reasons, I am not upholding this complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 13 May 2024.

Frances Young
Ombudsman