

The complaint

Mr L, through his professional representative, complains that NewDay Ltd never carried out the right checks before giving him two credit cards and several credit limits increases.

What happened

Mr L applied on-line for two credit cards with NewDay. The first application was in October 2018 for an Aqua Card and it was approved with a credit limit of £1,200. That was closed in May 2022.

In December 2020 Mr L applied for an AO Card, still with NewDay which was approved with a credit limit of £1,200.

For the Aqua Card, two credit limit increases (automatically offered by NewDay) were offered to Mr L and for the AO Card Mr L requested a credit limit increase. The brief loan table here gives a few details.

Card	Date limit increase/decrease	Former limit	New limit	Balance of Card at time of offer/request (rounded)
Aqua	19 March 2019 offered	£1,200	£1,950	£1,112
Aqua	24 July 2019 offered	£1,950	£2,700	£1,775
Aqua	17 December 2019 done	£2,700	£2,400	£2,720
AO	August 2022 requested by Mr L	£1,200	£1,500	£713

Mr L, through his representative, complained to NewDay in September 2023 and this was followed by its final response letter (FRL) in which NewDay gave reasons why its original lending decisions and the credit limit increases were carried out correctly. The FRL explained he could refer his complaint to the Financial Ombudsman and he did.

One of our investigators looked at the complaint. In the response to the Financial Ombudsman request, NewDay sent details of how it approaches lending decisions, and what it did for each in respect of Mr L.

Our investigator did not uphold Mr L's complaint. His representative disagreed and without giving reasons has asked that the complaint about both cards be reviewed.

The complaint was passed to me to decide.

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.

Our approach to unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - is set out on our website and I have followed it here.

NewDay is required to lend responsibly. It needed to conduct checks to make sure that the credit it was giving to Mr L was affordable and sustainable. Such checks need to be

reasonable and proportionate to things like the credit limit it offered Mr L, how much he had to repay (including interest and charges) each month, his borrowing history with it and what it knew about his circumstances. But there is no set list of checks it had to do.

This means to reach my conclusion I need to consider if NewDay carried out reasonable and proportionate checks at the time of Mr L's applications and when it applied the credit limit increases; if so, did it make fair lending decisions based on the results of its checks; and if not, what better checks would most likely have shown.

Aqua Card

In October 2018 when he applied for the card, Mr L informed NewDay that he was earning a gross annual income of £30,353. His partner's income had been noted as £1,256 each month (after tax).

I am satisfied that NewDay carried out reasonable and proportionate checks and assessed the information it had. I've seen nothing which I think ought to have led NewDay to look more closely at his application. It follows that I think it reached a fair decision to approve the new card with the £1,200 limit.

I do not uphold Mr L's complaint about the initial Aqua Card approval and the credit limit.

In February 2019 and July 2019 NewDay automatically reviewed Mr L's account and offered him a credit limit increase on each occasion. I have set out those old and new limits in the table at the beginning of this decision.

NewDay has explained its checks at this point would have included consideration of Mr L's balance, the card account repayment history, account management and external credit situation.

For both limit increases, the balances on the credit card account at the time were not at the existing limits. Mr L's external debt was much the same in February 2019 and in July 2019, slightly higher than when he'd originally applied for the card.

Mr L had taken £420 of cash out in November 2018 and £10 of cash in February 2019. Everyone experiences cash flow issues from time to time, and the withdrawals by Mr L were rare and appeared to be concentrated into a short time. So, it did not look to have been a protracted period of needing cash from his credit card which could have indicated Mr L was experiencing financial difficulties. I don't think that was the case here. About a year after this Mr L had paid two sets of late payment fees in December 2018 and January 2019.

Later in 2019, Mr L had incurred a further late fee with NewDay and a 'one month arrears' marker had been added to his record for his external credit. But NewDay knew of these details. And overall, I consider that NewDay carried out reasonable and proportionate checks when assessing the credit limit increases. While it does seem there may have been some issues over the 2018 Christmas period, these appear to have been resolved by the time of the increases. I wouldn't expect NewDay to have conducted further checks on Mr L's situation.

I do not uphold this part of the complaint.

AO Card

The AO Card was applied for in December 2020 when the Aqua Card was running. Mr L submitted an application and I understand, that NewDay would have used the information it already had about Mr L for the AO Card application.

Mr L had said he was earning £42,000 a year gross when he applied for AO Card.

On 17 December 2019 NewDay had decreased his credit limit on the Aqua Card to £2,400. This looked to have been because Mr L's account balance had exceeded the limit of £2,750

in October 2019 and he'd incurred an 'overlimit fee' plus a late fee. Mr L's external debt had increased and he now had external debt arrears markers of 2 months for at least one account.

Then for four months leading up to December 2020, when Mr L was applying for the AO Card, on the Aqua Card Mr L incurred four 'overlimit fees. And earlier in 2020 his external debt record indicated he had had arrears.

NewDay knew that Mr L had incurred a default to the value of £600 11 months earlier which would have been the beginning of 2020. That would dovetail with some of the issues beginning to show on the Aqua Card and continuing through 2020.

So, although I appreciate that NewDay says that some adverse indicators on its records/research would not automatically lead to a card application decline, here I think it had enough to have carried out further checks on Mr L's financial situation before extending further credit to him in the shape of a new card in December 2020. So, I don't think that NewDay did carry out reasonable and proportionate checks. So I have looked at what NewDay may have seen if it did do those additional checks.

One convenient method of checking a person's financial situation (but not the only way) is to review bank account statements. The copy bank statements Mr L's representative has sent to us I have reviewed for the relevant period. One set does cover the period leading up to December 2020.

Having reviewed the statements for November 2020 and December 2020, then I can see that in each of those months Mr L paid rent (£373) and all the usual household bills including council tax and three phone accounts, landline cost, utilities and media and TV bills and several sets of insurances. All these added up to £535 and with the rent that came to £908.

Mr L had an account which related to car finance (£213) and two other loans (£20 for the two) plus other credit cards as well as NewDay. In November 2020 Mr L paid those down by £250 including the Aqua card.

Mr L was paying two separate debt collection agencies, but these were small amounts of £20 and £15. Mr L spent about £110 on petrol in November 2020.

All of this added up to £1,536 (excluding food costs) for November 2020 and the expenditure for December 2020 was much the same.

His salary was around £2,600 for November 2020 and seeing that on the bank statements confirmed Mr L's net pay each month. So, it looks to be that Mr L's expenditure did not exceed his income.

The bank account was in overdraft in mid-December 2020, but only to about £600 at the time of the AO Card application. I don't think that was too high. And the new card was approved on 19 December 2020.

Had NewDay carried out additional checks then what it would have found would not have made a difference in my view. So, I think NewDay made a fair lending decision.

I do not uphold this part of the complaint.

In May 2022 Aqua Card was paid off and settled.

In August 2022, Mr L requested a credit limit increase on the AO Card from £1,200. It was raised to £1,500 in August 2022.

Mr L's outstanding balance on the AO Card was around £713 around July/August 2022 and was not near the existing limit. There were no external credit arrears markers or any other factors to indicate any issue.

I consider that NewDay had carried out reasonable and proportionate checks before approving Mr L's request for a £300 credit limit increase which I think was a fair lending decision. I do not consider it needed to have done more.

I do not uphold this part of Mr L's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 16 July 2024.

Rachael Williams
Ombudsman