

The complaint

Miss S complains that NewDay Ltd was irresponsible in its lending to her.

Miss S is represented by a third party but for ease of reference I have referred to Miss S throughout this decision.

What happened

Miss S was provided with a credit card account by NewDay in 2019. She said she had other accounts open at the time she applied for the credit card and that since applying she had taken out additional borrowing showing her dependency on debt. She said NewDay didn't take reasonable steps before providing the credit card to ensure that Miss S could sustainably afford the repayments.

NewDay issued a final response letter dated 19 March 2024. It said that Miss S applied for a credit card account in August 2019 and at the time declared an annual income of £8,000 with access to other household income of £2,077 a month. It said a credit check was carried out which showed she had £1,700 of unsecured debt and no defaults, adverse public records, payday loans or accounts in arrears. It said Miss S met its acceptance criteria and a credit card with a £300 credit limit was provided.

NewDay said it regularly reviewed its customer's accounts and it increased Miss S's credit limit on six occasions. The final credit limit was £3,750 (November 2022). It said it reviewed the data available at the time of each limit increase and it was confident that these had taken place in line with its policy and that proportionate checks had taken place. However, based on the information provided by Miss S in her complaint it upheld her complaint from the fifth credit limit increase in January 2022.

Miss S referred her complaint to this service. Our investigator thought that the checks carried out before the initial credit limit of £300 was provided were proportionate and she didn't think the lending decision was unfair. Considering the credit limit increases, our investigator thought that further checks should have taken place before the first four credit limit increases were applied. However based on the evidence provided she didn't find that further checks would have shown the lending to have been irresponsible. As NewDay upheld this complaint from the fifth credit limit increase and had offered redress in line with what we would expect she didn't comment on the fifth and sixth credit limit increases.

Miss S didn't agree with our investigator's view and so her complaint has been passed to me, an ombudsman, to issue a 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Miss S was provided with a credit card by NewDay in August 2019. It had an initial credit limit of £300. The credit limit was then increased on six occasions. NewDay has upheld this complaint from the fifth credit limit increase and the redress offered was in line with what we would expect. Therefore, this decision relates to the initial provision of the credit card and the first four credit limit increases.

Credit card provided August 2019, credit limit £300

Before the credit card account was provided, NewDay gathered information about Miss S's employment, income and residential status and carried out a credit search. The information showed that Miss S was a council tenant, was co-habiting, and while her employment status was recorded as 'N/A' she declared an annual income of £8,000. Additional to her declared income Miss S said her partner's net monthly income was £2,077. The credit search didn't raise any concerns about how Miss S was managing her accounts, with no defaults or adverse public records recorded and no accounts in arrears. She did have £1,700 of unsecured debt.

While Miss S was on a low income, she did note there being another income into the household and she didn't appear to be struggling financially based on her credit check results. So, given the relatively small credit limit offered, I find the checks at this time were reasonable and I do not find I can say NewDay was wrong to provide the account to Miss S.

Credit limit increase April 2020 to £1,050

Miss S had had the NewDay credit card for around nine months when the credit limit increase was applied. The increase resulted in the limit being more than three times the initial limit provided. While Miss S was maintaining her account and made her monthly payments, she made cash advances in most of the first few months of having the credit card and her total debt balances had increased to over £4,200. As I can't see that any new data was collected in regard to Miss S's employment and income, I have considered the increase against the information provided at application.

Given Miss S's relatively low income and increasing debt balance, I think it would have been reasonable for NewDay to have carried out further checks before increasing Miss S's credit limit to ensure the additional lending was sustainably affordable for her.

Miss S has provided copies of her credit file and bank account statements. Her bank statements show that she was receiving around £600 a month in income and benefits. She was also receiving frequent significant payments from her child's father. I think had further questions been asked these payments would have been identified and I find it reasonable to accept these were for living costs of Miss S and her child and so I have included these when assessing her income and outgoings. Looking at Miss S's outgoings for her credit commitments and general living costs and comparing this to her income didn't suggest this credit limit increase would be unaffordable.

Miss S was taking out other loans seemingly for short periods and repaying these when she had the funds available. She was also using her £200 overdraft facility but this was for short term periods and she often cleared the balance and spent some time each month in credit. I have looked at the credit report Miss S has provided and while this may not provide a full

picture given it is a recent report, it doesn't raise any concerns about how Miss S was managing her accounts. Taking this all into account, and as further checks wouldn't have shown the lending to be unaffordable I do not find I can say NewDay was wrong to provide this credit limit increase.

Credit limit increase September 2020 to £1,800

Miss S maintained her account in line with the account terms in the months leading up to the second credit limit increase. She incurred no late or over limit charges. While she made a £450 cash advance in May 2020, she then didn't make any further cash advances. Her total debt balance had decreased slightly. That said, she was operating at near her credit limit and considering the size of the credit limit increase compared to Miss S's previously declared income I find that further checks should have taken place.

Looking through the credit report provided by Miss S, this doesn't raise concerns that she was struggling at the time. Her bank statements showed that the amount she received from benefits had increased and combining this with her income gave a monthly amount for income and benefits of around £1,400. As noted above, Miss S was also receiving frequent significant payments into her account from her child's father. So, while Miss S did have other credit commitments at the time as well as general living costs, considering the amount that would need to be paid on the new £1,800 credit limit, I do not find I have enough to say that further checks would have shown this to be unaffordable.

Credit limit increases in February 2021 to £2,400

Miss S maintained her account in line with the account terms in the months leading up to the third credit limit increase. She incurred no late or over limit charges and took out no cash advances. Her total debt balance reduced in this period but then increased again. Miss S was operating within credit limit. So, while I cannot say her account management raised concerns, considering the size of the credit limit that was to be provided I think NewDay was required to carry out thorough checks of Miss S's income and expenses to ensure the lending was sustainably affordable for her.

Looking through the credit report provided by Miss S, this doesn't raise concerns that she was struggling at the time. Her bank statements showed that the amount she received from benefits had increased and combining this with her income gave a monthly amount for income and benefits of around £1,600. As noted above, Miss S was also receiving frequent significant payments into her account from her child's father. So, while Miss S did have other credit commitments at the time as well as general living costs, based on what I consider would have been identified had further checks taken place, I do not find I have enough to say this credit limit increase shouldn't have been provided.

Credit limit increase in September 2021 to £3,000

Miss S maintained her account in line with the terms in the months leading up to the fourth credit limit increase. She incurred no late or over limit charges but made one cash advance of £300. Her total debt balance had increased further to around £6,000. Given the size of the credit limit that was to be provided compared to Miss S's income I think NewDay was required to carry out thorough checks of Miss S's income and expenses to ensure the lending was sustainably affordable for her.

Looking through the credit report provided by Miss S, this doesn't raise concerns that she was struggling at the time. Her bank statements showed that the amount she received from benefits had increased and combining this with her income gave a monthly amount for income and benefits of around £1,750. As noted above, Miss S was also receiving frequent

significant payments into her account from her child's father. So, while Miss S did have other credit commitments at the time as well as general living costs, based on what I consider would have been identified had further checks taken place, I do not find I have enough to say this credit limit increase shouldn't have been provided.

In conclusion, while I think that NewDay should have carried out further checks before increasing Miss S's credit limit, in this case, I do not find that such checks would have shown the lending to have been unaffordable. I've also considered whether NewDay acted unfairly or unreasonably in some other way, including whether its relationship with her might have been unfair under s.140A Consumer Credit Act 1974. But, for the reasons I've already given, I don't think NewDay lent irresponsibly to Miss S or otherwise treated her unfairly in relation to this matter and I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here. Therefore, I do not find I can uphold 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 S to accept or reject my decision before 3 September 2024.

Jane Archer
Ombudsman