

The complaint

Ms K complains that NewDay Ltd lent to her irresponsibly when it approved her credit card and later increased the credit limit.

What happened

Ms K applied for a credit card with NewDay in May 2021. NewDay approved the application and gave Ms K a credit card with a credit limit of £1200. In October 2021 the credit limit was increased to £2450. In March 2022 the credit limit was increased to £3700. In July 2022 the credit limit was increased to £5200.

Ms K complained that NewDay had lent to her irresponsibly. She said she had been vulnerable at the time she applied for credit and that she suffered from physical and mental health issues. Ms K said she'd been offered further credit that she couldn't afford to repay without proper checks having been carried out.

NewDay issued a final response on 18 December 2023 in which it said it had carried out proportionate checks before giving Ms K the card. It said that prior to each credit limit increase it had also carried out proportionate checks, but that in the light of the information Ms K had now provided about her circumstances it had decided to uphold her complaint from the time of the credit limit increase given in July 2022. NewDay refunded £12 in late payment fees, £24 in over limit fees and £429.61 interest, all of which were applied to reduce the balance on the account.

Ms K remained unhappy and brought her complaint to this service.

Our investigator didn't uphold the complaint. They said that NewDay had carried out reasonable and proportionate checks at account opening and at the first and second credit limit increases, and that the lending decisions were fair. The investigator also said that NewDay had resolved the complaint fairly by refunding interest and charges from the date of the third credit limit increase.

Ms K didn't agree. She said she hadn't been aware that NewDay had upheld her complaint from the third credit limit increase and that she didn't understand where this left her with regards to the account. Ms K said she didn't think that all the circumstances which led to the debt becoming unmanageable for her had been taken into account.

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 complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, is set out on our website. I've had this approach in mind when considering Ms K's complaint.

NewDay needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice,

this meant that NewDay had to complete proportionate checks to make sure Ms K could afford to repay what she was being lent in a sustainable manner.

There isn't a set list of checks that a business needs to carry out. But the checks carried out must be reasonable and proportionate when considering things like how much was being lent, the repayment amount and the consumers income and expenditure.

Account opening

I can see that when Ms K applied for the account, she declared annual income of £33,000. NewDay carried out a credit check which showed that Ms K had total unsecured debt of around £4,400. The check also showed that Ms K hadn't had any defaults for over 40 months and that she didn't have any accounts in arrears or any county court judgments against her.

Based on what I've seen, I'm satisfied that NewDay carried out proportionate checks at the account opening stage. I say this because Ms K's overall level of debt was low in proportion to her income and there was no adverse information on her credit file.

I've gone on to consider whether the lending decision was fair. With this in mind, I've reviewed the information gathered by NewDay to determine whether this showed that the lending was affordable for Ms K. The checks showed that Ms K had no accounts in arrears and that she managed her existing unsecured debt well. Ms K's debt was around 13% of her income as a proportion, which is within what would be deemed to be acceptable limits. Taking the available information into account, I haven't seen anything to suggest that Ms K wasn't likely to be able to sustainably repay the lending. I'm therefore satisfied that the decision to lend was fair.

Credit limit increases

The credit limit was increased three times on the account. NewDay has accepted that the third credit limit increase wasn't fair, so I've only looked at the first and second credit limit increases in this decision.

NewDay carried out checks before each credit limit increase. Prior to the first credit limit increase, the checks showed that Ms K had total unsecured debt of around £6,235. The checks also showed that Ms K had no accounts in arrears and no county court judgments. NewDay also looked at how Ms K had managed the account since opening it. It also took into account the information it already held about Ms K, such as her annual income.

I've reviewed the information which NewDay obtained prior to the first credit limit increase. Based on what I've seen, I'm satisfied that the checks were proportionate and that there was no information to suggest that the credit limit increase – if fully utilised – wasn't likely to be affordable for Ms K. I say this because the credit checks showed that Ms K was managing her existing debt well and her conduct of the account since it was opened had been good, with no late or missed payments. Ms K's debt to income ratio was still within an acceptable limit at this time. I'm therefore satisfied that the decision to increase the credit limit was a fair lending decision.

Prior to the second credit limit increase, the checks showed that Ms K had total unsecured debt of around £9,259. The checks showed no accounts in arrears and no county court judgments. Ms K had continued to manage the account well and there were no late or missed payments. Her debt to income ratio had increased to 28% which was still within acceptable limits.

Having reviewed the information obtained by the checks, I haven't seen anything to suggest that the second credit limit increase wasn't affordable for Ms K.

As I've said above, NewDay has accepted that it shouldn't have given Ms K the third credit limit increase. I've thought about whether the resolution offered by NewDay in relation to this is fair. NewDay has refunded interest and charges to the account. This is in line with what this service would expect a provider of credit to do in similar circumstances. So I think NewDay has acted fairly here.

I appreciate that Ms K feels that the circumstances which led to her getting into debt haven't been taken into consideration. I've reviewed everything but I can't see that NewDay was made aware of Ms K's circumstances until 2023. All the lending decisions took place prior to 2023, so I can't fairly say that NewDay should've taken circumstances into account which they weren't aware of at the time.

I've taken account of everything Ms K has said, and I've read through all of the medical information she's sent to this service. I'm sorry to hear that she's had a difficult time. However, for the reasons I've explained above, I don't think NewDay has acted unfairly here. The checks carried out before each lending decision were reasonable and proportionate and the lending decisions were fair.

Finally, I've thought about whether NewDay acted unfairly or unreasonably in some other way, given the circumstances of this complaint, including whether its relationship with Ms K could be said to be unfair. Under section 140A of the Consumer Credit Act 1974. However, for the same reasons I've explained above, I haven't seen anything to suggest that section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 8 October 2024.

Emma Davy
Ombudsman