

The complaint

Mr B, who is represented by a professional representative ("PR") complains that NewDay Ltd was irresponsible when it increased the limit on his credit card account.

What happened

Mr B took out a credit card with NewDay in September 2016 and was granted the following increases:

Initial limit	27/09/2016	£300
1 st Increase	7/02/2017	£500
2 nd Increase	4/08/2017	£1,250
3 rd Increase	5/12/2017	£2,250
4 th Increase	6/04/2018	£3,500
5 th Increase	20/09/2018	£5,500
6 th Increase	20/04/2019	£7,250

In the autumn of 2023 PR submitted a letter of claim to NewDay seeking a refund of all interest and charges plus 8% interest where relevant. NewDay rejected this saying it had carried out the appropriate checks before granting the increases. It also noted that prior to each increase Mr B had been notified and had the opportunity to opt out.

A complaint was brought to this service where it was considered by one of our investigators who recommended it be upheld. She considered that NewDay had not acted fairly in making the increases which took the limit over £500.

NewDay didn't agree and said Mr B was managing his account very well and his cash advance usage reduced after the third increase. It also supplied updated data on Mr B's known financial situation. It asked that the matter be considered by an ombudsman.

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.

After due consideration I have decided that this complaint should be upheld. I will explain why.

When providing credit to a consumer, businesses must check two basic things. Firstly, it must be affordable and secondly it has to consider if the debt is sustainable. In other words, is it likely that the consumer will be able to maintain the monthly repayments without causing financial problems?

The opening of the account and the first increase took place more than six years before the complaint was brought and these events fall outside our jurisdiction, but NewDay has agreed that they can be considered by this service.

That said, I agree with our investigator that NewDay did nothing wrong in agreeing to open the account and in granting the first increase to £500. The first increase occurred some seven months into the account and was not an unreasonable jump after seeing how Mr B had used the account. He was paying more than the minimum monthly repayments and had only one late payment fee imposed.

The next increase was four months later and took it up to £1,250. By this time Mr B was using the account to withdraw cash; an expensive means of accessing cash. He withdrew £1,750 from April 2017 until February 2018. I appreciate NewDay carried out checks before granting each increase, but it does seem that Mr B was finding himself under some financial pressure when he made such a significant use of the cash withdrawal facility. While I can see that NewDay carried out the relevant checks I do not think it was reasonable to offer him the increased limit at that point.

Having concluded that the second increase was unreasonable I believe it follows that the further increases were inappropriate. I have noted NewDay's comments that his use of the cash withdrawal facility reduced later, but I do not consider that allows me to reach a different conclusion.

I have also noted that the limit went from £500 to £ 7,250 in less than three years. That is a significant increase and while Mr B may not have rejected these automatic increases, I fear it put him in a position where he was exposed to greater financial risk. I do not believe this was reasonable.

Putting things right

As I don't think NewDay should have increased Mr B's credit limit above £500, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr B has had the benefit of all the money they spent on the account so I think he should pay this back. Therefore, NewDay should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £500 after May 2014.
- If the rework results in a credit balance, this should be refunded to Mr B along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. NewDay should also remove all adverse information recorded after May 2014 regarding this account from Mr B's credit file.
- Or, if after the rework the outstanding balance still exceeds £500, NewDay should arrange an affordable repayment plan with Mr B for the remaining amount.

Once Mr B has cleared the outstanding balance, any adverse information recorded after May 2014 in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mr B a certificate showing how much tax has been taken off if they ask for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that I uphold this complaint and I direct NewDay Ltd to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 15 November 2024.

Ivor Graham
Ombudsman