

## **The complaint**

Mr S complains that NewDay Ltd trading as BIP lent irresponsibly when it approved his credit card application and went on to increase the credit limit.

## **What happened**

Mr S applied for a credit card with BIP in January 2022. In his application, Mr S said he was employed with an income of £10,000. BIP calculated that meant Mr S received £833 a month after deductions. BIP applied cost of living expenses of £402 and housing costs of £306. BIP completed a credit search and found a default on Mr S' credit file that was 17 months old. No recent missed payments or adverse credit was found on Mr S' credit file. BIP applied its lending criteria and says it found Mr S had £84 a month available as disposable income. BIP approved Mr S' application and issued a credit card with a limit of £1,200.

Mr S used his credit card and in July 2022 BIP increased his credit limit to £2,700. BIP says it used information obtained from the credit reference agencies in addition to Mr S' credit card history with it when considering whether to increase the credit limit.

Earlier this year, Mr S complained that BIP lent irresponsibly and it sent him a final response on 11 May 2024. BIP said it had carried out the relevant lending checks before approving Mr S' application and later increasing his credit limit. BIP also said it had closed Mr S' credit card to new spending following his complaint that it lent irresponsibly. BIP didn't uphold Mr S' complaint.

An investigator at this service upheld Mr S' complaint. They noted that when BIP assessed the application in January 2022 it found Mr S only had £84 a month left as disposable income. The investigator thought the information available to BIP should've shown he wasn't in a position to sustainably afford a new credit card with a limit of £1,200. The investigator noted that BIP's claim its lending checks were designed to verify whether a customer could afford at least 2.5x the monthly interest of the credit card weren't demonstrated by the figures it provided.

Mr S accepted the investigator's recommendation but BIP didn't respond so his complaint has been passed to me to make 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.

Before agreeing to lend or increasing the credit limit, the rules say BIP had to complete reasonable and proportionate checks to ensure Mr S could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;

- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

In his original application, Mr S said he was employed with an income of £11,000 that BIP calculated as leaving him with £833 a month after deductions. I think it's fair to say Mr S had a reasonably modest income at the point of application which meant BIP needed to be very sure he could sustainably afford repayments to a new credit commitment. BIP used reasonable figures for Mr S' regular living expenses and housing costs. I can see BIP also completed a credit check and found Mr S had public information recorded around 45 months earlier which normally means a County Court Judgement of some kind, along with a default that was around 17 months old. I accept the more recent information recorded didn't show any signs of financial difficulties but I'm satisfied BIP should've taken the default and other information into account.

Ultimately, BIP found Mr S had a disposable income of £84 after covering his living costs and existing credit. In my view, that's a very limited sum for Mr S to cover any unexpected living expenses or emergencies. BIP approved a credit limit of £1,200 but I think it should've been reasonably clear to BIP that Mr S was already at capacity and would be unlikely to afford further credit. In my view, BIP lent irresponsibly when it approved Mr S' credit card application.

As I think the original lending decision was unreasonable based on what BIP know about Mr S it follows I think the same about the decision to increase his credit limit to £2,700 around six months later. I've also looked at the information BIP used when deciding whether to increase Mr S' credit limit.

I note that when Mr S applied for the credit card he owed around £2,700 to other creditors but when the credit limit was increased around six months later that figure had gone up to around £5,000. That's a substantial increase in a reasonably short period of time, in addition to the £1,161 balance Mr S had accrued with BIP up to June 2022. In my view, that should've shown Mr S was borrowing at an unsustainable rate and caused BIP to either consider carrying out better checks or decline to proceed altogether.

Ultimately, I'm satisfied the information available to BIP should've shown Mr S was already borrowing at an unsustainable rate and caused it to decline to increase the credit limit to £2,700 in July 2022. In my view, BIP lent irresponsibly when it approved the credit limit increase to £2,700.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr S in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

As I'm satisfied BIP lent irresponsibly both during the original application and when it increased Mr S' credit limit I'm upholding his complaint and directing it to refund all interest, fees and charges applied from the date the credit card was opened.

## **My final decision**

My decision is that I uphold Mr S' complaint and direct NewDay Ltd trading as BIP to settle as follows:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr S along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. BIP should also remove all adverse information regarding this account from Mr S' credit file.
- Or, if after the rework there is still an outstanding balance, BIP should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 18 November 2024.

Marco Manente  
**Ombudsman**