DRN-5079109

The complaint

Mrs G complains that after NewDay Limited had approved a credit card for her, she was given credit limit increases which were too high for her to be able to use and payback. She says she could not afford the credit limit increase amounts.

What happened

NewDay approved a credit card for Mrs G on 30 November 2018 with a credit limit of £1,200. Mrs G has confirmed that she is not complaining about that initial approval decision. After that she was given five credit limit increases from March 2019 to April 2023 and her credit limit now is £8,000. Her outstanding balance is around £7,000.

NewDay said in its response to Mrs G's complaint that it did all the checks it should have done before approving the credit limit increases and it lent responsibly. After Mrs G had referred her complaint to the Financial Ombudsman Service, one of our investigators thought that NewDay had done all it should have done and did not uphold the complaint.

Mrs G was not content and the unresolved complaint was passed to me to decide. I'm reviewing the credit limit increases only. After I had reviewed the file I asked Mrs G for some more information about her income and the management of her money and that belonging to her family. Mrs G has sent that to us.

On 13 November 2024 I issued a provisional decision giving reasons why I considered that the complaint should be upheld in part. I gave time for the parties to respond. That provisional decision is duplicated here.

What I had provisionally 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. NewDay needed to make sure it didn't lend irresponsibly. In practice, what this means is NewDay needed to carry out proportionate checks to be able to understand whether Mrs G could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

NewDay says Mrs G would have been provided with the credit limit increases based on how her credit card was being managed. It also says it carried out credit searches, which showed her external debt as well as some information about her income and expenditure.

In its view, the information obtained indicated that Mrs G's existing debts, as well as her NewDay credit card, were being reasonably managed and as such it wasn't unreasonable to have increased the credit limit on the card on the occasions that it did. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- Did NewDay carry out reasonable and proportionate checks to satisfy itself that Mrs G was in a position to sustainably repay the credit?
    - If not, what would reasonable and proportionate checks have shown?
- Did NewDay make fair lending decisions?
- Did NewDay act unfairly or unreasonably towards Mrs G in some other way?

It's not about NewDay assessing the likelihood of the credit being repaid, but it had to consider the impact of the repayments on Mrs G. There is no set list of checks that it had to do, but it could take into account several different things such as the amount of credit, the monthly repayments, and the overall circumstances of the borrower.

<u>Did NewDay carry out reasonable and proportionate checks.</u>

As part of NewDay's submissions to us it has sent us detailed spreadsheet information and these figures surrounding Mrs G's '*Effective Disposable Income*' ("EDI"). I've listed them here.

- Credit limit 1 - March 2019 - from £1,200 to £2,700 – EDI of £1,998.00
- Credit limit 2 – June 2019 –from £2,700 to £4,450 - EDI £2,086.00
- Credit limit 3 – June 2022 – from £4,450 to £5,700 - EDI £2,985.00
- Credit limit 4 – October 2022 – from £5,700 to £7,200 - EDI £2,348.00
- Credit limit 5 – April 2023 – from £7,200 to £8,000 - EDI £2,869.00

NewDay has explained that the EDI was calculated by adding together a customer's credit commitments, housing costs and costs of living and then subtracting that figure from the customer's income. When Mrs G applied for the card in November 2018 she had declared that her annual gross salary was £14,500 and her net monthly income was around £1,076. Mrs G had listed her outgoings (housing, credit commitment costs and cost of living) as £714 (rounded figure) in total, leaving her with an EDI of £362 (rounded).

For Mrs G's EDI for each of the credit limit increases to be almost £2,000 and for the third one – almost £3,000 – are extraordinary increases and ought to have precipitated further checks by NewDay. Mrs G's EDI jumped from £362 to £1,998 in just over three months from the date the card was approved to the first credit limit increase in March 2019 and I consider that this ought to have been a fact NewDay checked. I can't see that it did.

And a further example is in July 2022 when Mrs G's 'assessed income' was £4,686 and her EDI was £2,985. And in April 2023 her 'assessed income' was £5,331.

So, because of the extremely large increase in her assessed income/EDI figures at the first credit limit increase in March 2019 I think that further questions and checks ought to have been asked of Mrs G before lending. In those circumstances my understanding is that NewDay may have carried out proportionate checks but having obtained the information applied no logic or real scrutiny to its discoveries. And further checks ought to have been done to clarify a significant change in Mrs G's finances.

<u>What would those additional checks have shown NewDay? And did NewDay make fair lending decisions?</u>

Having asked Mrs G for the information surrounding the use of her bank accounts she has explained that two members of her family paid their money into her account and she kept it for them and paid it back when they needed it. This was to assist those family members in their own money management. And it was an arrangement with her other family members that Mrs G used some of the money to assist with household bills.

I reviewed the bank statements from Mrs G, and I have seen that from 11 December 2018 to 11 January 2019 they showed:

- Mrs G's income was from two sources – £835 wages and £165 pension
- Mrs G received around £1,250 from her son and repaid out to him around £1,050
- She received some money from another family member and that was either repaid out to him or used to go towards the household bills/mortgage cost.

- Mrs G was in her overdraft and was paying interest and charges
- The household bills which were for utilities, TV, film subscriptions, DVLA, insurances, and such things came to £437. New Day knew her mortgage was £289.
- The credit card /store card payments Mrs G made were £105
- There were some low-level betting transactions
- Food was additional cost

From 11 February 2019 to 11 March 2019 – just before the first credit limit, the transactions were (and the transactions from mid-January 2019 to 11 February 2019 where much the same):

- Mrs G's income was from two sources – £835 wages and £165 pension
- Mrs G received around £1,350 from her son and repaid out to him around £960
- She received no money from the other family member but still paid money out to him
- Mrs G was in her overdraft and was paying interest and charges
- The household bills which were for utilities, TV, film subscriptions, DVLA, insurances, and such things £455. New Day knew her mortgage was £289.
- The credit card /store card payments were £70
- There were some low-level betting transactions
- Food was additional cost

So, this was the real picture in the period leading up to the first credit limit increase in early March 2019. My provisional view is that the unrealistic increase from EDI of £362 to £1,998 in three months ought to have prompted further checks and this is what NewDay would have found. I consider that it was unlikely Mrs G on her actual income of £835 a month and a pension of £165 a month was likely able to repay sustainably the credit limit increase of £2,700.

NewDay did not carry out proportionate checks and if it had, it would have recognised the true picture and by failing to do that it did not make a fair lending decision. It follows that I do not consider the subsequent credit limit increases to be fair lending decisions either as each is predicated on the same set of incorrect income information in much the same way as the one I have outlined for the first increase in March 2019.

I plan to uphold Mrs G's complaint from 4 March 2019 and that from that date interest should only have been charged on the first £1,200 outstanding - to reflect the fact that the credit limit increase to £2,700 (and all the subsequent ones) should not have been provided. All late payment and over limit fees should also be removed.

<u>Did NewDay act unfairly or unreasonably towards Mrs G in some other way?</u>

I've considered whether the relationship between Mrs G and NewDay might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Mrs G results in fair compensation for her in the circumstances of this complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

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.

New Day has not responded and Mrs G has accepted my provisional decision outcome and its findings. In the absence of anything new from either party then I have no reason to depart from the reasoning and conclusions I came to in the provisional decision duplicated above. So those are repeated here. I uphold the complaint from 4 March 2019 and that from that date interest should only have been charged on the first £1,200 outstanding - to reflect the fact that the credit limit increase to £2,700 (and all the subsequent ones) should not have been provided. All late payment and over limit fees should also be removed.

Putting things right

NewDay to put things right by:

- Reworking Mrs G's account to ensure that from 4 March 2019 interest is only charged on the first £1,200 outstanding - to reflect the fact that the credit limit increase to £2,700, and all the subsequent ones, should not have been provided. All late payment and over limit fees should also be removed;

AND

- If an outstanding balance remains on Mrs G's account once these adjustments have been made NewDay should contact Mrs G to arrange a suitable repayment plan,

OR

- I doubt that this scenario will be the case as Mrs G's balance is around £7,000, but I insert it here for completeness - if the effect of removing the interest, fees and charges after reworking the account as I've outlined above results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs G along with 8% simple interest* on the overpayments from the date they were made (if they were) until the date of settlement.

- If no outstanding balance remains after all adjustments have been made, then NewDay should remove all adverse information it has recorded from Mrs G's credit file.

NewDay can reduce Mrs G's credit limit by the amount of compensation it awards, if doing so wouldn't leave Mrs G's balance above any new credit limit.

* HM Revenue & Customs usually requires NewDay to take off tax from this interest. It must give Mrs G a certificate showing how much tax it has taken off if she asks for one

My final decision

My final decision is that I uphold the complaint in part and I direct that NewDay Limited does as I have outlined in the 'putting things right' part of my decision. Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 25 December 2024.

Rachael Williams
Ombudsman