

The complaint

Miss L has complained that NewDay Ltd acted irresponsibly when it approved her application for a credit card and then subsequently increased the card's limit multiple times.

Background

Miss L applied for a credit card with NewDay in September 2017. Her application was approved, and she was given a credit card with an opening limit of £900. The limit was then increased five times in total, to a final upper limit of £8,000 in March 2020.

Miss L, who is represented by a complaints management company (CMC), has said that the credit card was never affordable for her and NewDay shouldn't have approved it or increased the limit so many times. She says she had a poor credit history and struggled to repay the card, only managing to repay the interest and not the capital amount owed. She believes that NewDay failed to do appropriate checks before approving the card or increasing the limits and says if it had it would have realised it was unaffordable to her. She is now in a cycle of debt, relying heavily on her overdraft as well as support from friends and family to meet her repayments. She has asked that NewDay refund all the 'premiums' she's paid as well as interest, charges and 8% simple interest on the refund amount.

NewDay has said that at the time Miss L applied in 2017 it ran all the necessary checks and was satisfied that the card was affordable for her. It says at each point the limit was increased it checked her credit file, found no signs of arrears or financial stress and that her card was well maintained. It also says she was regularly making large overpayments to the account and so it was satisfied that it was affordable for her. NewDay has said the first time Miss L contacted it to inform it she was struggling was October 2023 more than three years after the final limit increase. As it didn't think it had done anything wrong in how it had reviewed Miss L's initial application, or approved any of the later limit increases, it didn't uphold her complaint.

Unhappy with NewDay's response Miss L brought her complaint to this service. One of our investigators looked into it already. She found that the checks NewDay had run, both at the time of the application in 2017, and for the subsequent limit increases were proportionate. She noted that Miss L's credit file remained in good order, and she was managing the account well, and was regularly making large repayments well above the minimum needed. Therefore, she didn't think there was anything in the checks that NewDay ran that indicated Miss L may be struggling to manage the card properly or that more thorough checks were needed. So, she didn't uphold the complaint.

Miss L's CMC disagreed with the investigator's assessment. It said because the limit had increased from £900 initially to the upper limit of £8,000 more thorough checks should have taken place. It said if NewDay had reviewed Miss L's bank account it would have seen her income was lower than it had been declared in September 2017 and that she was gambling. So, it didn't think the lending was appropriate and asked for an ombudsman to review the complaint again and so it's been passed to me for consideration.

My findings

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, the total cost of the credit and what it knew about the consumer at the time of application.

In its response to the investigator's view Miss L's representative said NewDay should have reviewed Miss L's bank statements as part of the checks it ran when increasing her credit limit and if it had it would have realised her actual income was lower than she had originally declared and that she was gambling. However, it's important to clarify that there is no obligation on lenders to request bank statements as part of the checks they run when assessing affordability and risk. Rather the rules merely require that the checks are proportionate to the lending and consider relevant factors like existing credit commitments and how accounts are being managed.

I'm satisfied that when Miss L applied for the credit card in 2017 the checks NewDay ran were proportionate. She did have some historic defaults on her credit file but the most recent of those was nearly three years prior to the application in 2017 and the account was opened with a relatively low limit. So, I don't think NewDay was wrong to approve the initial application as it appeared to be affordable for her.

When the first credit limit took place in January 2018, Miss L had been managing the account well for four months, paying more than the minimum amount required and the information on her credit file hadn't changed in any substantial way. So, I don't think there was any need for it to run more checks or to suspect that the card was causing Miss L any potential problems.

Likewise, the second increase in June 2018, Miss L was managing the card well and her overall external debt, as evidenced on her credit file, had significantly decreased in the five months since the previous limit increase. So, I don't think there was anything at this time that should have prompted NewDay to run more thorough or detailed checks than it did. And I think the information it did gather from the checks that were completed didn't show any sign of financial stress or that the limit increase was inappropriate.

The third limit increase happened in October 2018 and was for a relatively low amount, only increasing the overall limit by an additional £200. Again, Miss L's credit file remained in good order, she was regularly making large repayments to the credit card, that far exceeded the minimum repayment required. So, I can't fairly say there was anything that should have prompted NewDay to ask for additional information before approving the limit increase and I don't think the lending decision was inappropriate.

The next limit increase took place in May 2019. By this time there was evidence of a single missed payment and two incidents where Miss L appears to have used the card for cash advances, but these aren't automatically indicators that she was experiencing financial problems. Overall, in the seven months between the previous credit increase and this one Miss L had continued to make regular large repayments to the account and despite the missed payment, which may well have been an oversight, the account was well maintained.

In addition, there were no indicators of financial stress on Miss L's credit file with no signs of missed payments or defaults elsewhere. So again, I can't see anything that would have indicated the card was potentially causing Miss L any problems at this time or that more detailed checks were necessary.

The final credit limit took place in March 2020. Again, looking at how the account had been maintained over the previous 10 months I can't see any evidence of missed payments or arrears on the account, or indeed anywhere on Miss L's credit file. She had continued to make regular large repayments to the account which means she was, at that time, repaying the capital owed and not just repaying the interest. So, I can't say that NewDay failed to recognise any signs that the card was causing Miss L problems at the time of the final credit increase or that it should have requested more information before approving the lending decision.

I appreciate that Miss L has said that she is experiencing financial difficulties and has become reliant on friends and family to help support her. I'm very sorry to hear that she is struggling and that she is now only able to repay the minimum amounts due on the card. However, I can only base my decision on the information that was available to NewDay at the time the lending decisions were made. And as I've explained above, based on what it saw at the time of application in 2017, and at each limit increase between 2018 and 2020, I can't say there was anything that should have prompted it to ask for additional information or given it cause to think the lending wouldn't be affordable to her. And it's important to note the limit didn't jump from £900 to £8,000 in one increase, which arguably might have required more detailed checks. Instead, the limit increase incrementally and with each increase checks were completed and no indicators of financial difficulty were evident. Which means I can't reasonably say Newday acted inappropriately and so I can't uphold Miss L's complaint.

I've also considered whether NewDay acted unfairly or unreasonably in some other way, including whether its relationship with Miss L might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. However, for the same reasons I've set out above, I've not seen anything that makes me think this was likely to have been the case.

My final decision

For the reasons set out above I'm not upholding Miss L's complaint against NewDay Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 13 December 2024.

Karen Hanlon
Ombudsman