

The complaint

Miss B says NewDay Ltd trading as BIP ('BIP'), irresponsibly lent to her. She says that it didn't take reasonable steps to ensure she could afford the card repayments and it increased her credit limit three times. She says she spent the balance each month and she had problems repaying the card at times. So BIP should have known that it wasn't affordable for her.

What happened

This complaint is about a credit card that Miss B took out in December 2021. The card had a credit limit of £900 when it was opened. This was increased to £1,900 in September 2022, to £3,250 in January 2024 and to £4,850 in May 2024.

Miss B has complained to BIP saying that the lending wasn't affordable and the credit limit on the card shouldn't have been increased.

BIP considered this complaint and at first it didn't uphold it. It said thought it'd done adequate checks, which showed that Miss B could afford the lending. This was the case when Miss B started the card and when it increased the credit limits. Miss B didn't agree with this and brought her complaint to the Financial Ombudsman Service.

BIP then reconsidered the complaint and it said that it shouldn't have approved the credit limit increases. It offered to refund all overlimit fees, all cash advance fees, and all late payment fees that were applied to Miss B's account since 21 September 2022 on balances above £900. It calculated that this would mean Miss B should be paid compensation of £1,028.06.

Our Investigator thought that the offer BIP had made was fair. She thought that the checks that were made before the card was approved and were proportionate, and these showed that the card was likely to be affordable.

As BIP had said it should pay compensation in respect of the amounts Miss B had borrowed above the initial credit limit of £900 she didn't fully consider whether it was right to increase the card's credit limits. But our Investigator said she didn't think increasing the credit limit on the card was necessarily entirely wrong and so the compensation offered was fair.

Miss B didn't agree with the Investigator. She said it wasn't fair just to refund some of the interest and this would mean she would still have a long time to repay the lending. And she said that the refund was only up to the time of the complaint, so if she had complained later, she would get more. She thinks that as BIP has acted incorrectly then the compensation should be higher, and she shouldn't pay any interest going forward on the balances above £900. She outlined what she thought fair compensation looked like.

Because Miss B didn't agree, this matter has been passed to me to make a final 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider when deciding what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did BIP complete reasonable and proportionate checks to satisfy itself that Miss B would be able to repay the credit in a sustainable way?
 - a. if so, did BIP make a fair lending decision?
 - b. if not, would reasonable and proportionate checks have shown that Miss B could sustainably repay the borrowing?
2. Did BIP act unfairly or unreasonably in some other way?

And, if I determine that BIP didn't act fairly and reasonably when considering Miss B's application, I'll also consider what I think is a fair way to put things right.

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Similarly to our Investigator I'll look in more detail at the initial credit card application to see if BIP was right to lend. And as BIP has already agreed that it shouldn't have increased the credit limit on the cards I'll look at whether the offer of compensation is fair.

Did BIP complete reasonable and proportionate checks when it approved the card to satisfy itself that Miss B would be able to repay the credit in a sustainable way?

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the finance being applied for, as well as the borrowers' personal circumstances at the time of each application.

BIP has explained that it asked Miss B for her income, and she told it that she earned £16,000 a year. BIP said that this would mean that Miss B received around £1,253 a month.

I can't see that BIP verified Miss B's income but the card had a relatively modest credit limit when it was started and so the minimum repayments would not have been large. So, I don't think it was unreasonable to have used Miss B's declared income. And there is no indication the amount it used is wrong in any event.

BIP also looked at some information from Miss B's credit file which showed she had existing credit commitments costing her around £233 a month. And the credit report showed that she wasn't in any financial difficulties. Miss B was paying her existing credit and there wasn't any evidence of missed or late payments in the six months before the application. She wasn't having more serious problems such as payment agreements or defaults.

Miss B hasn't said that she was in any kind of difficulty when the card was approved. And, there's nothing on this report that shows me BIP should've declined her application, or that it should've been unduly concerned about her current financial position.

BIP then used statistical information to estimate Miss B's other monthly outgoings. It said her expenditure would likely be around £451 a month which included housing costs of £234.60. And when it added this to the monthly amount she was already paying for her existing lending it thought the amount she had left over was enough to make the credit card repayments. I don't think this was unreasonable here, given Miss B's other circumstances and the lack of evidence of financial difficulties and Miss B has said herself that the card was affordable at the start.

I haven't seen any further information that shows its likely BIP was made aware of any financial problems Miss B might've been having – if she was having them. Or anything that would've prompted it to investigate Miss B circumstances further. So, I think it was reasonable for BIP to rely on the information it obtained.

So overall, in these circumstances, I think the assessments BIP did when it approved the card were proportionate. And I think its decision to approve the card was reasonable.

BIP has already agreed that it shouldn't have increased the credit limit on the card in the way that it did. I won't look in detail at how it established whether Miss B would be likely to afford the new higher repayments. That said, BIP says it did the same kind of checks that it had made earlier which I don't think are unreasonable. And it did inform Miss B about the credit limit increases in advance and give her the opportunity to not have the proposed increases applied.

And I've looked at the credit reference agency data that BIP has provided, and it seems reasonable to say that this shows that Miss B only started to have repayment problems around the time of the last payment increase. And she didn't have significant other debt or problems in any event.

BIP has said that it will refund all proportionate interest, all overlimit fees, all cash advance fees and all late payments fees (not already refunded) applied to Miss B's account since 21 September 2022 but only on balances above £900. When the card is repaid BIP will remove any adverse entries on her credit file.

Taking everything into account I think this is reasonable here and I think BIP should now pay this compensation. I can see that Miss B will still need to repay amounts to BIP for the funds she has borrowed. And there will be some interest payable on this over time. But I don't think this is unreasonable as she did benefit from the money she borrowed.

Did BIP act unfairly or unreasonably in some other way?

I haven't seen anything to make me think BIP acted unfairly or unreasonably in some other way.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the offer made results in fair compensation for Miss B in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

For the reasons set out above, I don't uphold Miss B's complaint.

NewDay Ltd has already made an offer to pay £1,028.06 to settle the complaint and I think this offer is fair in all the circumstances. So, my decision is that NewDay Ltd should pay £1,028.06.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 11 March 2025.

Andy Burlinson
Ombudsman