

The complaint

Mr M complains NewDay Ltd (NewDay) failed to carry out proper financial checks before it approved a credit card account and the subsequent credit limit increases on that account.

What happened

Mr M says NewDay acted irresponsibly when it provided him with a credit card facility in September 2016 and subsequently increased the limit on that account on four further occasions, between May 2017 and September 2018. Mr M maintains NewDay failed to carry out sufficient checks on his financial position before it increased his borrowing from £250 to £3,150 over that period of time.

Mr M says if NewDay had carried out proper financial checks it would have seen the borrowing was unaffordable. Mr M wants NewDay to refund all interest and charges with 8% simple interest and compensation for the trouble and upset this has caused him.

NewDay says it is a responsible lender and lends to customers who may not have a perfect credit record. NewDay says it carried out proportionate checks including the information provided by Mr M, information from the credit agencies and its own internal data before any credit facilities were granted. From the information it had seen, NewDay says there were no missed payments, no active payday loans nor any defaults or CCJ's.

NewDay says it didn't see any signs of any financial difficulties and Mr M when notified of the proposed limit increases, never asked to opt out of any of these.

Mr M wasn't happy with NewDay's response and referred the matter to this service.

The investigator looked at all the available information and partially upheld the complaint. The investigator felt NewDay had carried out reasonable and proportionate checks when it initially provided the credit card facility in September 2016 and the three subsequent limit increases in May 2017 to £500, November 2017 to £1,250 and March 2018 to £2,050.

The investigator felt however, when the credit limit increase was offered in September 2018 to £3,150, NewDay hadn't properly considered the fact in the prior four months Mr M had made monthly cash withdrawals of £100 each, even when his account was over the limit two months prior to the increase. The investigator felt this was a sign any further lending would be unaffordable or unsustainable. So, the investigator felt NewDay hadn't made a fair lending decision here.

The investigator asked NewDay to rework the account removing all interest fees and charges applied to balances over £2,050 after 19 September 2018 including 8% simple interest. The investigator felt any adverse data post September 2018 should be removed.

NewDay didn't agree with the investigator's view and asked for the matter to be referred to an ombudsman for 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.

Having done so, I will also be partially upholding this complaint and I will explain how I have come to my decision.

I was sorry to hear of Mr M's financial position and this must be a source of worry to him. When looking at this complaint I will consider if NewDay acted irresponsibly when it provided a credit card account to Mr M in September 2016 and subsequently approved four further credit limit increases between May 2017 and September 2018, ranging from £500 to £3,150.

As the investigator has pointed out there's no set rules as to what checks a business must carry out before it approves credit facilities other than these are reasonable and proportionate taking into account the amount, term, and affordability of any lending.

It's also worth saying that NewDay provide credit to individuals with perhaps a less than perfect credit record, with the idea it would offer an initial modest credit limit and consider increasing this once the account becomes more established.

Here when the initial credit card account was opened in September 2016, a modest £250 credit limit was provided. NewDay then carried out its own internal credit assessment using information from Mr M's application details showing his income at £24,000 and information from the credit reference agencies. So, with that in mind, I'm satisfied the checks NewDay carried out were proportionate and there was nothing to suggest the credit offered was unaffordable.

From the information I have seen when the subsequent credit limit increases were approved by NewDay in May 2017 £500, November 2017 £1,250, and March 2018 £2,050 it applied the same industry standard checks I would expect to see. So, it's fair to say there was nothing to suggest any obvious financial problems and Mr M's account was managed reasonably well with no CCJ's or defaults registered against him.

So, I wouldn't have expected NewDay to have asked for any further financial information such as bank statements or say payslips and I'm satisfied it carried out proportionate checks here and on balance the lending appeared affordable.

Like the investigator, where I do have an issue is when the limit was increased from £2,050 to £3,150 in September 2018, some six months from the last increase. During that six-month period Mr M had made four monthly £100 cash withdrawals at a time when he had also exceeded his credit limit. While I understand cash withdrawals are part of the service NewDay offer, it's also fair to say it is also a potential warning sign of financial stress if seen regularly, as it was here. Coupled with the fact Mr M had exceeded his limit two months prior to the increase, these warnings signs should have at least been questioned by NewDay before any limit increase was considered, taking into account the limit was increased by around 50%.

I am satisfied if NewDay had carried out a more thorough check of Mr M's finances at that time, it would have discovered in all likelihood Mr M was experiencing financial difficulties and future increased borrowing was unsustainable.

While NewDay will be disappointed with my decision, I feel this is a fair outcome here.

Putting things right

I instruct NewDay Ltd to rework the account removing all interest, fees and charges that have been applied to balances above £2,050 after 19 September 2018, along with 8% simple interest* on that sum.

Should the refund result in the borrowing falling below £2,050 any adverse credit history should be removed from Mr M's credit file, otherwise this should only be removed once the borrowing has fallen to below that level.

If after the rework the outstanding balance still exceeds £2,050, NewDay should arrange an affordable repayment plan with Mr M for the remaining amount.

*HM Revenue and Customs requires NewDay Ltd to deduct tax from any award of interest. It must give Mr M a certificate showing how much tax has been taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint.

I instruct NewDay Ltd to rework the account removing all interest, fees and charges that have been applied to balances above £2,050 after 19 September 2018, along with 8% simple interest* on that sum.

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Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 May 2025.

Barry White
Ombudsman