

## The complaint

Miss B complains that NewDay Ltd lent to her irresponsibly and increased the interest rate on her account unfairly.

## What happened

On 16 September 2021, Miss B applied for and received a credit card with NewDay. She was given an initial credit limit of £1,200 which was later increased as follows:

Date	Credit limit increase (CLI)	New Limit
22 February 2022	CLI1	£2,450
23 June 2022	CLI2	£3,950
20 October 2022	CLI3	£5,450

The interest rate charged on the account increased gradually throughout 2022. On 17 February 2023, NewDay wrote to Miss B increasing her interest rate from 34.25% to 40.16% with effect from 25 April 2023. Miss B repaid the balance and closed the account in August 2023.

In November 2024, Miss B complained to NewDay. She said she'd applied for the card initially to conduct a balance transfer from a card she had elsewhere as the interest rate had been lower. But she said it was wrong for NewDay to have increased her limit to a stage where it was over three times her monthly income and it was unaffordable for her. She felt it was "predatory" for NewDay to increase her limit and then significantly increase her interest rate a few months later.

To resolve her complaint, Miss B said NewDay should repay the interest she'd paid it and the interest on the loan she'd taken out to repay the card, plus compensation for the stress and anxiety it caused.

NewDay looked into Miss B's complaint and issued a final response letter. It outlined the checks it had carried out before agreeing to lend to Miss B and increasing her credit limits. It felt it had lent responsibly. It didn't however address her concerns about the interest rate. NewDay didn't uphold Miss B's complaint.

Miss B didn't accept NewDay's response, so she referred her complaint to our service. One of our investigators looked into it. He said NewDay had carried out reasonable and proportionate checks when agreeing to open Miss B's account and for CLI1. However, he felt it ought to have done more before agreeing to CLI2 and 3, but if it had looked more closely, it would still have offered the limit increases. Overall, he felt NewDay had reached fair decisions to lend to Miss B.

Our investigator also considered Miss B's complaint about the interest rates applicable to her account. He said NewDay had explained the interest rate was variable and linked to the Bank of England base rate (BoE) which had increased several times throughout 2022. He said the increase NewDay had written to her about in February 2023 was as a result of a change in her circumstances. Our investigator didn't uphold Miss B's complaint.

Miss B didn't agree with our investigator so, as there was no agreement, the complaint has been passed to me for 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.

Having done so I didn't agree with the conclusion reached by our investigator, so I issued a provisional decision. I said:

*"Lending*

*We've set out our approach to complaints about irresponsible and unaffordable lending on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.*

*NewDay needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Miss B irresponsibly. 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 Miss B was in a position to sustainably meet the repayments?*
- *If not, what would reasonable and proportionate checks have shown at the time?*
- *Did Miss B make a fair lending decision?*
- *Did NewDay act unfairly or unreasonably towards Miss B in some other way?*

*NewDay had to carry out reasonable and proportionate checks to satisfy itself that Miss B would be able to repay the credit sustainably. It's not about it assessing the likelihood of it being repaid, but it had to consider the impact of the repayments on her. 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 and length of the credit, the amount of the repayments and the overall circumstances of the borrower.*

*When she applied for the account, Miss B told NewDay she had a gross annual income of £17,825 which it calculated as £1,360 or so per month after tax. It used statistical information to determine her general living expenses and housing costs. It reviewed her credit file to see what finance she had elsewhere, how it was run and how much she paid towards it each month. She was up to date with her existing commitments and had no defaults or County Court Judgments (CCJ). It determined she had a monthly disposable income of around £570 per month. So it was happy to agree the card for her with an opening limit of £1,200.*

*I think given what it found as a result of its checks, it was reasonable for NewDay to agree the account and opening limit of £1,200 for Miss B.*

*CLI 1 to £2,450*

*I can see Miss B used almost all of the limit straight away which isn't surprising given she had planned to use the card to transfer a balance from elsewhere. But she kept up to date with repayments and NewDay could see from a review of her credit file that her circumstances remained steady. At the time, she had external credit of around £3,800 and no defaults or CCJs. It was happy to offer CLI1 to £2,450. I don't think that was unreasonable.*

#### CLI2 to £3,950

Miss B didn't use the new credit limit offered under CLI1 immediately and kept up to date with her payments. Her external credit fell slightly to £3,500 or so, and the data NewDay gathered showed her income had increased to around £1,530 per month. Again, there were no defaults or CCJ's showing on her credit file. I don't think it was unreasonable for NewDay to offer a higher limit based on what it could see.

#### CLI3 to £5,450

By September 2022, Miss B's balance with NewDay was up to £3,362 and her external credit had increased to £4,225. Her income, according to the data, was £1,560. The limit proposed by NewDay at this stage does feel quite high bearing in mind her overall debt had increased to £7,500 and her level of income. I think it would have been sensible for NewDay to undertake some further checks before offering CLI3.

Miss B has provided some bank statements for a few months prior to CLI3 and I've looked closely at those. I can see that her income was generally around £1,540, although in August 2022, she received £2,450 from her employer. So I think the income NewDay had for her was reasonable.

In terms of her expenditure, I can see she was paying £450 per month in rent and had bills such as utilities and council tax of approximately £390. She had payments to other creditors which varied month to month depending, presumably, on the required payments and what she felt she could afford (I note higher payments in August when her income was much higher for instance). There is also a fair amount of discretionary expenditure such as eating out and retail transactions. So I think overall, had NewDay sought to find out more about Miss B's situation, it would still have been likely to think the limit was affordable and gone on to offer it.

So I don't think NewDay acted unreasonably in agreeing to lend to Miss B or increasing her limits. I think it reached fair decisions to lend.

#### Interest rates

Miss B has complained about the increase in the interest rate over time and especially the increase she was advised on in February 2023 – just four months or so after NewDay had increased her limit. NewDay said the interest rate increased as a result of changes in the BoE base rate, but Miss B has questioned that. Below is a table comparing the two rates:

Standard rate purchase v BoE base rate		
Statement date	Annual simple interest rate	BoE base rate
February 2023	34.25%	3.50%
March 2023	34.25%	4.25%
April 2023	34.50%	4.50%
May 2023	40.66%	5%
June 2023	40.66%	5.25%
July 2023	41.16%	5.25%
August 2023	41.41%	5.25%
<b>Total increase</b>	<b>7.16%</b>	<b>1.75%</b>

It's clear then that the rate Miss B was charged rose much faster than base rate in April/May

2023. It is fair to acknowledge that NewDay wrote to Miss B in February 2023 to let her know that would happen – and the terms and conditions allow it to vary interest rates – but I need to consider whether it raised the rate fairly.

NewDay said, “The factors that we have considered when increasing your interest rate are based on how you manage credit with us and with other lenders. These may include:

- Not making payments on time, exceeding your credit limit, or sudden increases to your spending without increasing your payments as well.
- The way you use credit, such as frequently making cash transactions.
- Changing your financial behaviour elsewhere. For example, increasing the amount of credit you use elsewhere or having trouble managing other financial products well.”

There is no indication from the information NewDay has provided that Miss B had been late with her payments, exceeded her credit limit or had made cash withdrawals. So I can only assume that the increase in interest rate was due to an increase in Miss B’s overall credit. I’ve looked at the level of debt Miss B had based on the data provided by NewDay.

	1	2		
Month	Credit limit	NewDay balance	External credit	Total credit (1+2)
August 2022	£3,950	£3,214.75	£4,146	£7,360.75
September 2022	£3,950	£3,362.29	£4,225	£7,587.29
October 2022	£3,950	£3,617.47	£4,467	£8,084.47
November 2022	£5,450	£4,541.31	£4,305	£8,846.31
December 2022	£5,450	£4,911.72	£4,787	£9,698.72
January 2023	£5,450	£4,884.72	£5,657	£10,541.72
February 2023	£5,450	£4,757.01	£6,611	£11,368.01
March 2023	£5,450	£3,082.04	£6,620	£9,702.04
April 2023	£5,450	£2,262.58	£6,629	£8,891.58
May 2023	£5,450	£2,094.85	£6,151	£8,245.85
June 2023	£5,450	£2,412.42	£5,299	£7,711.42

At the point at which NewDay increased Miss B's credit limit to £5450, her total credit was £8,846. It was clearly content with her carrying that level of credit or it would not have applied the limit. NewDay wrote to her just a few months later to increase her interest rate for the reasons set out above. It seems this was likely because her exposure had increased to £11,368 in February 2023.

But by the time the higher interest rate started – April 2023 - her exposure was back to the level at which NewDay had increased her limit. This was largely as a result of her repaying around £2,500 to NewDay. It seems to me that as NewDay was content with Miss B having £8,800 or so of debt, it ought to have looked again at her interest rate and not implemented the increase. Alternatively, if it still had concerns about affordability, it could have taken steps to decrease her limit to prevent her from increasing her exposure again.

Looking at the two tables together, I can understand why Miss B used the word "predatory" when making her complaint to describe the increase in her credit limit only to significantly increase the interest rate shortly afterwards - and not revise it when her circumstances improved. By the time she closed the account, her overall credit was down to £1,643 but NewDay hadn't offered to reduce the interest rate. I don't think it treated Miss B fairly in this regard.

*Prior to this decision, I wrote to NewDay informally to ask it to explain the interest rate changes and / or make an offer to refund the extra interest Miss B has paid. It has failed to answer my most recent request.*

*To settle her complaint, Miss B has asked for interest she's paid plus the interest she is now accruing on a loan she took to repay the card. She's also requested compensation for the distress and anxiety caused to her as a result of the sudden increase in interest at a time when she says she could least afford it.*

*As I think NewDay lent to her fairly, I don't think it would be fair for me to tell it to refund all interest she's paid. And as she borrowed the money, it's right that she should repay it – albeit she is now doing so via a loan rather than to NewDay. I suspect the loan interest will be lower than the rates she was paying on the card (or would have paid on the card following this decision) so I don't think it would be fair for me to award that interest to Miss B either.*

*But I do think that as NewDay treated her unfairly by increasing her interest rate significantly in excess of BoE, it should refund the extra interest Miss B has paid as a result.*

*Miss B's interest rate would have increased in line with BoE from 34.25% to 36% (given BoE increased by 1.75%) by the time this new interest rate was implemented. So I think it would be fair for NewDay to:*

- *refund to Miss B the difference in what she paid as a result of the implemented increase and what she would have paid had the interest rate simply followed BoE.*
- *add 8% simple interest to that figure from the date of payment to the date of the refund.*
- *Pay Miss B £100 compensation for the distress and inconvenience caused to her."*

Miss B hasn't responded to my provisional decision, but NewDay has. It said the increase in interest rate "*comprises of a scheduled interest rate increase and a BOE rise*" so it didn't feel it had made a mistake. It didn't accept my provisional decision.

NewDay hasn't explained why the interest rate charged to Miss B increased. It's not in dispute that it told Miss B it was planning to increase the rate – presumably the "*scheduled interest rate increase*" it refers to - but it hasn't explained why that was fair or shown what caused it to increase the rate so far in excess of BoE.

The complaint handling rules are set out in the Handbook of the Financial Conduct Authority, specifically the Dispute Resolution section (DISP). DISP 3.6.1 says that "*The Ombudsman will determine a complaint by reference to what is, in his opinion, fair and reasonable in all the circumstances of the case*". I do not need to point to a "*mistake*" by NewDay as it has suggested in order to uphold a complaint, rather I need to decide whether I think it has acted fairly and reasonably in the circumstances. In this case, NewDay hasn't been able to persuade me that it acted fairly when it increased the interest rate applicable to Miss B's account. It follows that I don't think it acted fairly when it did so.

NewDay's further comments in response to my provisional decision haven't persuaded me to change my view.

### **Putting things right**

As set out in my provisional decision, I don't think NewDay acted fairly in increasing the interest rate applicable to Miss B's complaint. It should refund the extra interest she has paid as a result.

Miss B's interest rate would have increased in line with BoE from 34.25% to 36% (given BoE increased by 1.75%) by the time this new interest rate was implemented. So I think it would be fair for NewDay to:

- refund to Miss B the difference in what she paid as a result of the implemented increase and what she would have paid had the interest rate simply followed BoE.
- add 8% simple interest to that figure from the date of payment to the date of the refund.
- Pay Miss B £100 compensation for the distress and inconvenience caused to her.

### **My final decision**

My final decision is that I uphold this complaint. NewDay Ltd should put matters right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 2 December 2025.

Richard Hale  
**Ombudsman**