

The complaint

Miss H complains NewDay Ltd (NewDay) failed to carry out proper affordability checks before it increased the credit limits on her credit card account.

What happened

Miss H says NewDay approved a credit card account for her in October 2020 with a limit of £600, and between that date and June 2022 increased her credit limit to £4,350 at a time when she was already struggling to meet the minimum payments on her account with them. Miss H says if NewDay had carried out more robust financial checks it would have seen the limit increases were unaffordable. Miss H wants NewDay to refund the interest charged to her credit card account and remove any adverse data from her credit file.

NewDay says it is a responsible lender and carried out a comprehensive affordability assessment before each limit increase was approved, using information declared on Miss H's application and data obtained from credit reference agencies (CRA's).

NewDay says its affordability modelling showed the repayments were affordable and there was nothing recorded on her credit file to indicate Miss H was struggling financially such as CCJ's, defaults or payment arrangements. NewDay says it is satisfied it lent responsibly here.

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

The investigator looked at all the available information but didn't uphold the complaint. The investigator says there are no set list of checks lenders like NewDay must complete but these should be borrower focused.

The investigator felt NewDay had carried out reasonable financial checks before it approved the credit limit increases between October 2020 and June 2022, when the final limit increase of £4,350 was approved.

The investigator also felt that NewDay's affordability assessment on each occasion showed the increased limits approved were affordable and couldn't say it had lent irresponsibly.

Miss H didn't agree with the investigator's view and asked for the matter to be referred to an ombudsman for a final decision.

I sent both side a provisional decision, where I said:

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 be partially upholding this complaint and I will explain how I have come to my decision.

I was sorry to learn Miss H is experiencing financial difficulties and this must be a difficult time for her. When looking at this complaint I will consider if NewDay carried out reasonable

and proportionate financial checks, before it approved the credit limit increases when it did.

As the investigator has pointed out there are no set list of checks lenders like NewDay must carry out before approving credit facilities, but these should be borrower focused taking into account the amount, type, term and cost of any borrowing.

It's worth saying NewDay are what is known as a low and grow lender and provide credit to consumers with a less than perfect credit background. This means NewDay provide an initial modest credit facility and look to increase the facility over time having seen the account managed within the terms of the agreement and therefore helps consumers like Miss H to build their credit standing over time.

From the information I have seen, before the initial £600 credit card limit was agreed, NewDay carried out credit searches, income and expenditure assessments and referenced information contained in Miss H's application, in which she declared she was employed earning circa £28,000 per annum. Based on what I have seen, there was no indication of external financial pressure nor any indication on her credit file of defaults or CCJ's. So, I'm satisfied before it provided what was a modest initial credit card facility of £600, it carried out reasonable and proportionate checks and the borrowing looked affordable.

Following on from that and much in line with NewDay's low and grow approach, it then approved further limit increases to £1,600 in September 2021, £2,850 in February 2022 and finally £4,350 in June 2022. From what I can see NewDay relied upon Miss H's initial declared income to assess affordability, allowing for a modest increase in external credit from around £700 to £2,200. From its affordability modelling, this suggested the increased levels of borrowing were affordable and Miss H's credit file had shown no signs of obvious financial stress, with her credit card account payments kept up to date.

What is unclear however is how NewDay calculated Miss H's outgoings at those times, in particular her housing costs. I say this because initially NewDay estimated Miss H's housing costs to be in the region of £777 per month, but thereafter this figure was recorded in NewDay's affordability assessments I have seen at around £100 per month, and while I have asked for NewDay to clarify why this is so different, it hasn't responded fully on that point.

So to determine if the increased limits were affordable, I take the view it would have been more reasonable of NewDay to have assumed Miss H's income and committed expenditure remained static over the 20 months or so between the first and last limit increases but also allowing for the increase in monthly payments on external borrowing.

From my calculations if it had done that as part of its affordability assessment, this would have shown Miss H's net disposable income (NDI) being as follows:

- September 2021 limit £1,600. NDI of £455 per month with interest costs on this limit at 2.5 times, circa £126 per month.*
- February 2022 limit £2,850. NDI of £416 per month with interest costs on this limit at 2.5 times, circa £225 per month.*

While I am satisfied these increased limits looked affordable with a reasonable margin for unexpected costs, that can't be said when the limit was increased to £4,350 in June 2022. Using the same method of affordability, Miss H's NDI was now £361 per month with interest costs on this limit at 2.5 times circa £344 per month. So with that in mind I am not persuaded that this would allow sufficient financial head room to sustainably make this level of payment each month.

While I understand the low and grow approach NewDay operates, it's worth saying that within 20 months the credit availability had moved from £600 to £4,350, without any further verification of income and expenditure from Miss H and I feel if NewDay had been more thorough in assessing Miss H's income and expenditure, it would have in all probability realised the last limit increase was unsustainable given the small amount of headroom here.

I propose NewDay refund all interest and charges along with 8% simple interest on Miss H's credit card account from the time of the last credit limit increase in June 2022. I also propose that if that refund of interest and charges results in Miss H's debt reducing to below the previous limit of £2,850 approved in February 2022, then any adverse entries on her credit file after this date should be removed. If not those entries should only be removed once the balance falls below £2,850.

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

While Miss H and NewDay may be disappointed with my decision, I am satisfied this is a fair outcome here.

Miss H has accepted my provision decision but I have heard nothing further from NewDay despite chasing them and allowing additional time for them to provide any additional commentary, so the case has been passed back 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.

I gave both Miss H and NewDay until 29 October 2025 to accept or reject my provisional decision. Miss H accepted my provisional decision, but I've heard nothing back from NewDay despite the additional time to allow for any comments, so given that I see no need to change or add to my provisional decision and so my final decision remains the same.

Putting things right

I instruct NewDay Ltd to rework the account and refund all interest fees and charges that have been applied to the account since the last credit increase in June 2022, along with 8% simple interest on that sum.

If that refund of interest and charges along with 8% simple interest results in Miss H's debt reducing to below the previous limit of £2,850 approved in February 2022, then any adverse entries on her credit file after this date should be removed.

If not, those entries should only be removed once the balance falls below £2,850.

My final decision

My final decision is that I uphold this complaint.

I instruct NewDay Ltd to rework the account and refund all interest fees and charges that have been applied to the account since the last credit increase in June 2022, along with 8% simple interest on that sum.

If that refund of interest and charges along with 8% simple interest results in Miss H's debt reducing to below the previous limit of £2,850 approved in February 2022, then any adverse entries on her credit file after this date should be removed.

If not, those entries should only be removed once the balance falls below £2,850.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 3 December 2025.

Barry White
Ombudsman