

complaint

Mr N complains that NewDay Ltd was irresponsible when it gave him a credit card, and then some months later increased the amount he was able to borrow. He says although he's paid the debt back, he wants NewDay to remove any mention of the arrangement he had to make to repay the debt.

background

Mr N applied for a credit card with NewDay in March 2014. NewDay agreed to provide a card with a limit of £500. About 6 months later NewDay offered to increase the limit to £1,200 and gave Mr N 40 days to decline this offer if he so wished.

Mr N accepted the new limit (or at least didn't object to it). Some months later he couldn't afford repayments and made an arrangement with NewDay to pay the debt off in instalments. He did that in 2017.

Mr N's credit file shows this arrangement – and also that he got behind in making payments in 2015. That will show on his file for six years.

Mr N says that if NewDay had carried out proper checks it would have seen he was struggling financially at the time (ie in 2014), and relying on "payday" loans to get by. He thinks it was irresponsible for NewDay to lend to him, let alone increase the limit a short while later.

NewDay says it carried its normal checks and nothing on Mr N's credit file or application suggested he couldn't afford the card he was applying for.

Our investigator thought NewDay hadn't done enough. He said Mr N's credit file showed he'd had lots of payday loans. He thought if NewDay had carried out better checks it would have seen Mr N couldn't afford any more credit. NewDay didn't agree – it said there was only an old, low value default on Mr N's file, and no outstanding payday loans. So there wasn't anything that suggested it should have made more in depth enquiries at the time.

Since then there's been some dispute about what was recorded – and NewDay has pointed out that Mr N made some applications for credit from a different address than the one he used when applying for his card.

I've been asked to decide this complaint.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I'd like to make a couple of general points before I look at the particulars of this complaint.

First, NewDay said Mr N had been applying for credit from other lenders from a different address than the one he used when applying for his NewDay card. I'm not convinced this should make much of a difference, as credit files generally cover all addresses used by an individual. So wherever Mr N had been living, his credit file would reflect the amount of credit he had.

Moving on from that point, NewDay will be aware that it should have been checking whether Mr N could reasonably afford the credit it offered each time it offered credit – so both when Mr N initially applied for the card and each time NewDay suggested an increase in a limit. Those requirements are outlined in two different sets of guidance (because this changed between Mr N applying for the card and the increase being offered) – but the essentials are the same.

In particular “*Reasonably afford*” goes further than Mr N being able to meet the minimum payment requirements on a monthly basis: NewDay should also have checked Mr N would be able to repay the whole debt within a reasonable amount of time.

How NewDay assessed whether Mr N could afford the card or any limit increase is for NewDay to decide, as there’s no set list of checks. But they do have to be appropriate and proportionate. NewDay says it carried out its “normal” checks and looked at Mr N’s credit file and his income when it first agreed to give Mr N a card.

the initial card application

I can’t see that NewDay asked Mr N about his normal monthly outgoings. Instead it made assumptions about what he might have spent using industry databases. I think that was a failing as it doesn’t explore whether Mr N’s particular circumstances affect his ability to repay a debt.

Mr N has kindly sent us a credit report that shows his borrowing in late March 2014 – that’s when he first got the card. I’ve looked at it carefully. I can see Mr N had short term loans in the months leading up to him applying for the card. They seem mostly to have been for a few days each month. NewDay acknowledges that Mr N had had about eight loans – although he’d repaid most of these. There was one loan outstanding at the time. The repayments were a fairly modest £54 a month.

I think the existence of these loans should have prompted NewDay to make some further enquiries before it lent to Mr N. If it had done that I think it would have found that Mr N couldn’t afford more credit than he already had. I’ve looked at Mr N’s bank statements to see what was happening, and I think NewDay could have done that if it had so wished.

If it had made further enquiries, NewDay would have found that in the months before he applied for the card Mr N was almost permanently overdrawn and paid a fee for an unarranged overdraft at one point. Over the two months of January and February he had about six short term loans and the repayments were for about half of his monthly wage. Given that Mr N was only earning about £900 a month that didn’t leave him much for normal living expenses, and we know he had rent and other outgoings at the time.

I think that if NewDay had carried out proportionate checks it wouldn’t have provided the card. So I think it lent irresponsibly.

the limit increase

Given I don’t think NewDay should have provided the card initially, it follows that I don’t think it should have been offering an increased credit limit. But it’s possible Mr N might have been able to manage the credit card well – so I accept that NewDay could have looked at his card usage and decided to increase the limit. But I can see NewDay had been writing to Mr N

about missed payments and being over his (lower limit) – and I can't see NewDay sought any explanation for this. In addition Mr N was only making minimum payments on his NewDay card – so his debt wasn't decreasing.

Even without making further enquiries this suggests Mr N wasn't managing his finances, and I think it was irresponsible for NewDay to increase his limit.

putting things right

I think NewDay should put Mr N in the position he'd have been in if it hadn't increased his limit.

To do that it should:

- Refund all interest and charges that Mr N paid from when the credit card was accepted in March 2014 to when it was closed in July 2017
- Pay interest of 8% simple interest on the refund amount*
- Remove all information about the NewDay credit card from Mr N's credit File

*HM Revenue & Customs requires NewDay to pay tax on this interest. NewDay must provide Mr N with a certificate showing how much tax has been taken off if he asks for one.

my final decision

My decision is that I uphold this complaint and order NewDay Ltd to take the actions outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 10 October 2019.

Sue Peters
ombudsman