

complaint

Mr W complains that it was irresponsible for NewDay Limited to give him a credit card and then to increase his credit limit.

background

Mr W opened a credit card account with NewDay in 2014. Later that year he entered into a debt management plan and NewDay sold his account to a debt collection company. Mr W applied to NewDay for another credit card in November 2016, through a third party website. His application was successful and he was given a credit limit of £250. About six months later his credit limit was increased to £1,000. Mr W complained to NewDay in October 2017 that he shouldn't have been given the credit card in November 2016 and that his credit limit shouldn't have been increased. He wasn't satisfied with its response so complained to this service.

The investigator recommended that this complaint should be upheld. She said that NewDay did a credit search on Mr W before it provided the credit card to him in November 2016 and he was given a relatively small limit of £250. And she didn't think that that was unreasonable. But the vast majority of the transactions on his account were cash advances and gambling transactions. NewDay checked credit bureau data before increasing Mr W's credit limit but she didn't think that it did enough to check that the increased limit was affordable for Mr W. So she recommended that it should refund to Mr W's account the interest from when the credit limit was increased and that it should stop charging interest on the account. And she said that it should pay him £75 compensation for the distress that he's been caused.

NewDay has asked for this complaint to be considered by an ombudsman. It says, in summary, that Mr W doesn't appear to be in financial hardship, he's recently been paying more than the minimum repayment and that the account isn't in arrears. It also says that it checked credit bureau data before increasing the limit and asks what else it should've done before doing so. It says that it can freeze interest and charges if Mr W completes a financial statement to show that he can't afford his contractual payment.

Mr W has provided further information about the financial difficulties that he's experiencing.

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 consider that it was fair and reasonable for NewDay to accept Mr W's application for a credit card in November 2016 – and I consider that the initial credit limit of £250 was appropriate for Mr W's circumstances.

But I'm not persuaded that it was fair or reasonable for it to have increased his credit limit from £250 to £1,000 in May 2017 – about six months after the account was opened. It's clear that most of Mr W's use of the card was for cash advances and gambling payments. And his account operated near to its credit limit for most of that period. NewDay says that Mr W's account wasn't in arrears and that it made a credit check before increasing his credit limit.

But I consider that NewDay was aware that Mr W was on a debt management plan and that a proper assessment of his account would've shown that it wouldn't be responsible for it to

increase his credit limit. And I don't consider that there was any basis on which a fourfold increase in his credit limit was appropriate.

So I find that it would be fair and reasonable in these circumstances for NewDay to freeze Mr W's account and to refund to the account all interest and charges that have been applied on the amount by which the balance exceeded £250 for the period since the credit limit was increased to £1,000.

These events will have caused Mr W to suffer avoidable distress and inconvenience. I find that it would be fair and reasonable for it to pay him £75 to compensate him for that distress and inconvenience.

Mr W has had the benefit of the payments that he made from his account. So I don't consider that it would be fair or reasonable for me to require NewDay to refund those payments to him. But I consider that it would be fair and reasonable for it to try to agree a repayment plan with Mr W for the outstanding balance of his account which takes account of his income and expenditure and his debt management plan. And it's required to act positively and sympathetically in response to the financial difficulties that Mr W's experiencing.

my final decision

For these reasons, my decision is that I uphold Mr W's complaint in part. In full and final settlement of it, I order NewDay Limited to:

1. Freeze Mr W's account.
2. Refund all interest and charges that Mr W has paid on the amount by which his balance exceeded £250 for the period since his credit limit was increased – and the refund should be applied to reduce the outstanding balance of his account.
3. Pay £75 to Mr W to compensate him for the distress and inconvenience that he's been caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 15 March 2018.

Jarrold Hastings
ombudsman