

Complaint

Miss L complains that NewDay Ltd increased her credit limit without checking if it was affordable for her. She's now in financial difficulties and her debt with NewDay isn't decreasing because of the interest and charges being added to her account.

Background

Miss L successfully applied for a credit card with NewDay in April 2015 with a credit limit of £100. Over the next two years her credit limit was increased five times – to £4,200 by March 2017. Miss L says NewDay didn't check whether she could afford the additional credit. She's told us she's caught in a spiral of debt and has to use the card to meet priority bills such as food and council tax. She says she asked NewDay for help in 2018, but it didn't reply. She wants it to either write off the debt, or to refund all of the interest and charges. She's also very worried about the impact of the information recorded on her credit file and would like NewDay to remove any negative information.

NewDay says that the credit limit increases were in line with its responsible lending policy and that all interest and charges are as set out in its terms and conditions. It says it's written to Miss L many times to ask her to contact it if she's in financial difficulties.

Our investigator didn't recommend that the complaint should be upheld. He couldn't conclude that NewDay had lent irresponsibly. And he thought NewDay had offered to help if Miss L was in financial difficulties.

Miss L didn't agree, so the complaint has been passed to me.

My findings

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

NewDay has obligations to lend responsibly and to treat customers who are in financial difficulties positively and sympathetically. I've considered whether NewDay fulfilled these obligations, when Miss L applied for the credit card, when it increased her credit limit and in response to finding out she was in financial difficulties.

The credit card application

Miss L applied for an Aqua credit card in April 2015. There isn't a set list of checks NewDay was required to complete as part of the application process. But it needed to carry out proportionate checks to satisfy itself that the product was affordable. NewDay has explained this card is aimed at consumers who have a poor credit history or who are new to credit. NewDay asked for details of Miss L's employment and salary and it carried out a check of her credit file. It satisfied itself that there were no defaults on Miss L's credit file and that she had settled all pay day loans. On this basis it agreed to open an account with an initial credit limit of £100. I consider NewDay acted reasonably in assessing Miss L's circumstances and agreeing to open the account.

Increases in the credit limit

NewDay periodically increased the credit limit on the account as follows:

Application, April 2015	£100
May 2015	£450
October 2015	£1,050
April 2016	£2,050
September 2016	£3,100
March 2017	£4,200

Before each increase, NewDay satisfied itself that Miss L could afford the new limit by reviewing her use of the card and how she was managing other credit commitments. On each occasion it satisfied itself that Miss L could afford the increased credit limit. And I can see that Miss L was, in the main, making the required repayments on the card – there was just one late payment in October 2016. She wasn't making excessive cash withdrawals, and she hadn't exceeded the credit limit.

I conclude that NewDay did enough to make sure the credit limit increases were affordable.

I can also see that on each occasion NewDay wrote to Miss L to offer the increased limit. It gave her the opportunity to think about the increase and whether to accept it – the letters said:

“Before you decide what to do you should ask yourself if you can afford to pay back the new limit and if anything is likely to change that may mean you would have difficulty in paying back.”

On each occasion Miss L phoned NewDay in response to say that she wanted the limit increased. So, bearing this in mind and without any information to suggest that the increases would be unaffordable, it's difficult for me to say that NewDay should have done anything differently here. Whilst the increases did mean that the limit rose considerably from the point the card was taken out, NewDay has demonstrated that it carried out proportionate checks and there was nothing else to suggest Miss L might have struggled to maintain the borrowing.

Financial difficulties

When Miss L brought her complaint to this service, she explained that she was in financial difficulties. I can see that things have been very difficult for her and I am sorry for the position in which she finds herself. But I think, overall, NewDay fulfilled its obligations to treat Miss L positively and sympathetically. I'll explain why.

In early 2018, Miss L exceeded the credit limit on the card. She phoned NewDay in March to tell it she could only afford a nominal payment that month. She said she wouldn't be spending on the card, she wanted to repay the balance and she wanted the interest frozen. NewDay said it would call her back to discuss her options. But there's no record of whether a call back took place and it doesn't appear that Miss L got back in contact with NewDay. I don't think it was clear from the call that did take place whether Miss L was in financial difficulties. And she seems to have managed to make the monthly payments from May 2018 until December 2018, when spending on the account caused her to exceed the credit limit on the card again.

In February 2019, a similar conversation to the one in March 2018 took place. Miss L phoned to say she wanted to repay the balance, but needed the interest on the account freezing. She told NewDay she wasn't struggling to repay "yet". NewDay agreed to call her back to discuss her options, but there was no answer. It wrote to her to ask her to get in contact again, but it didn't hear back from her. Again, I don't find there was enough in this call to indicate to NewDay that Miss L may have been in financial difficulties.

So I don't think there was any obligation on NewDay to do anything in response to what Miss L had told it. It asked her to get back in contact to discuss her options and she doesn't seem to have done this.

But shortly afterwards – in mid-March 2019, NewDay sent Miss L a "persistent debt" letter. This explained that, because she'd only been making the minimum monthly payment for around 18 months, it would take a long time to repay the balance and she should consider increasing her payments. The letter also gave details of organisations that could help if Miss L needed guidance on how to manage her debts.

Miss L complained to NewDay shortly after this letter was sent and this was the first time NewDay became aware that Miss L may have been experiencing financial difficulties. It gave her a number to call to discuss her financial position further and said it could consider a reduced repayment plan. And it provided details of organisations that could help her.

Miss L told us that she was in a spiral of debt and was using this card to repay others and to meet priority debts, such as council tax and utility bills. But from the statements I've seen, I can't see that the card was being used to meet other credit cards or lending. There was a direct debit set up for a telecommunications company and there were three occasions when a payment was made to Miss L's local council. But I don't think this is enough for NewDay to have been prompted to take any action.

I don't find NewDay was obliged to do more, until it found out more about Miss L's income and expenditure. And whilst it could have considered refunding or freezing charges and interest, I don't find there wasn't any obligation on it to do so.

I understand that interest and charges were frozen from October 2019 and the account was passed to a debt collection agency in January 2020. That seems like a fair response to the situation. This should mean that Miss L can make more affordable payments moving forward without further interest and charges being applied.

My final decision

For the reasons I've explained, my final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 21 June 2020.

Elizabeth Dawes
Ombudsman