

The complaint

Mr B is unhappy that NewDay Ltd provided new and further credit to him at time when the provision of such credit wasn't affordable for him.

What happened

In March 2015, Mr B applied for a credit account with NewDay. His application was approved, and Mr B was issued with a credit account with an initial credit limit of £250.

In January 2017, NewDay increased the credit limit on Mr B's account to £450. Further credit limit increases followed in July 2017, to £1,250, and in September 2018, to £2,250.

Mr B applied for a differently branded NewDay credit account in September 2018. His application was approved, and NewDay issued Mr B with a second credit account, this time with an initial credit limit of £900.

In 2021, Mr B raised a complaint with NewDay as he felt that he hadn't been able to afford any of the provisions of credit that NewDay had given to him.

NewDay looked at Mr B's complaint. They felt that they'd undertaken checks into Mr B's financial position before offering any credit to him. These included obtaining information from Mr B about his income to ensure that he'd reasonably be able to afford the credit, as well as obtaining information from a credit reference agency in order to gain a better understanding of Mr B's wider financial position.

NewDay felt that there hadn't been anything resulting from any of the checks they'd undertaken that should reasonably have given them cause to suspect that Mr B might not be able to afford any of the credit NewDay had offered to him. And because of this, NewDay didn't uphold Mr B's complaint.

Mr B wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that Mr B had been in a demonstrably difficult financial position such that NewDay shouldn't have offered any of the new or further lines of credit to Mr B at those times, and that this should have been apparent to NewDay had the checks that they'd undertaken into Mr B's financial position at those times been more appropriately focussed. So, our investigator recommended that this complaint be upheld in Mr B's favour on that basis.

NewDay didn't agree with the recommendations put forwards by our investigator, so the matter was escalated to an ombudsman for 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.

It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be, that before approving a

customer for a new line of credit, or before increasing the amount of credit available to a customer on an existing line of credit, the business would undertake reasonable and proportionate checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay say that they did that here, and they note that when Mr B applied for the credit accounts with them that they took information from him about his income at those times in order to confirm that Mr B would in all likelihood be able to afford the credit that he was applying for. And NewDay also obtained information about Mr B from a credit reference agency, in order to gain a better understanding of Mr B's wider financial position at those times.

Additionally, before offering further credit to Mr B, NewDay reviewed how Mr B had managed his credit account in the months leading up to the offer as well as obtained updated information from a credit reference agency to update their understanding of Mr B's financial position. And NewDay maintain that there was nothing resulting from any of the checks that they undertook which they feel should have given them reasonable cause to suspect that Mr B might not be able to afford either the new or further lines of credit being offered to him.

First Credit Account Application

When Mr B applied for the first credit account in April 2015, he explained to NewDay that lived with his parents and that he was employed with an annual income of £25,000. NewDay also noted that Mr B had incurred two defaults on his credit file, with the most recent being eighteen months before the application, and that Mr B had outstanding existing credit totalling roughly £4,400, including a balance of £441 outstanding on short term payday loans. NewDay commented that Mr B had below average income while being highly indebted. But NewDay felt that Mr B was eligible – as per NewDay's own criteria – for a new credit account with the relatively low initial credit limit of £250.

It must be acknowledged that NewDay position themselves as second chance lenders, which means that it isn't unusual for individuals with below average credit ratings to request credit from them. And NewDay often provide such applicants with credit accounts with relatively low initial credit limits – such as was the case in this instance – to allow that individual to demonstrate future creditworthiness by managing the NewDay credit account responsibly.

But NewDay still have a responsibility themselves to ensure that they don't offer new lines of credit to applicants where there's a reasonable chance that the applicant might not be able to manage the credit account responsibly, such that the individual's financial position worsens as a result of being provided such credit.

In this instance, Mr B had defaulted on a prior credit commitment only eighteen months before his application to NewDay, and while that historical default may have been long enough ago that NewDay considered providing new credit to Mr B to be within their policy, I feel that this default – which confirmed that Mr B had struggled to meet credit commitments in the relatively recent past – as well as the fact that Mr B had an outstanding payday loan balance at that time – which indicated that Mr B might potentially be continuing to struggle to meet his financial commitments – should have reasonably given NewDay cause to consider that Mr B might not be able to afford any further credit at that time.

It's also notable that the information that NewDay assessed in regard to Mr B's financial position at that time, while including the amount of Mr B's annual income, didn't include any specific information about Mr B's expenditure. Instead, NewDay relied on information about Mr B's expenditure as estimated by a credit reference agency. But it's notable that the

information that NewDay have provided to this service that they obtained from the credit reference agency includes that Mr B didn't have any other outstanding credit commitments at that time, despite Mr B informing NewDay to the contrary at the point of application.

NewDay were entitled to employ such an expenditure modelling strategy when assessing affordability. But in this instance I feel that the information that NewDay had about Mr B's financial position at the time of the application – including that Mr B had a relatively recent default as well as an existing outstanding payday loan balance – should have given NewDay cause to undertake further checks into Mr B's financial position before offering any line of credit to him.

And had NewDay undertaken such further checks, which I feel reasonably should have included reviewing Mr B's current account statements for the months leading up to the application, I feel that the information that NewDay would have assessed here should have confirmed to NewDay that Mr B in all likelihood couldn't afford any further credit at that time.

I say this because Mr B's current account statements for the month's leading up to the NewDay application include the regular use of payday loans in conjunction with the balance of the account being maintained near the overdraft limit of £2,000, and also include several payments to debt collection agencies, other credit providers, and charges for using his unarranged overdraft.

The benefit of hindsight also confirms that Mr B couldn't reasonably afford the new credit that NewDay provided him, and I say this because Mr B went over the £250 credit limit, and incurred £12 over-limit charges as a result, for the first nine months that he held that account.

All of which means that I don't feel that NewDay did undertake reasonable and proportionate checks into Mr B's financial position here, in light of the information available to them, and that if they had I'm satisfied that NewDay should have concluded that they shouldn't have reasonably provided any credit to Mr B at that time. And it follows from this that I'll be upholding this aspect of Mr B's complaint on this basis.

Second Credit Account Application

When Mr B applied for the second credit account with NewDay in September 2018, the information that NewDay assessed included that Mr B was employed with an annual income of £32,000, which equated to a net monthly income of £2,077. It also included that Mr B had monthly accommodation expenses of £500 as well as further essential living expenses of £300 per month, as well as an existing overall credit balance of £14,700.

Given that Mr B had £14,700 of existing credit commitments, the figure of £300 that NewDay used for his monthly essential living costs doesn't seem feasible here, and it seems likely to me that Mr B could have been paying significantly more than this amount in monthly credit repayments alone.

Indeed, it must be noted that Mr B was making payments in excess of £40 per month towards his first NewDay credit account at that time, which was being maintained by Mr B with a balance of around £1,150. Furthermore, the credit reference agency information that NewDay continued to gather on Mr B for the first credit account showed that Mr B had existing credit commitments of over £20,000 at the time of the second account application, and not £14,700.

Taking this into account, it seems that Mr B already had credit commitments at the time of the second application that were more than 62% of his gross annual income. This doesn't

feel sustainable to me, and I find it difficult to reach any conclusion other than that NewDay based their affordability assessment for the second credit account on incorrect existing credit information and a considerable overestimation of Mr B's disposable income at that time.

Ultimately, I feel that from the information that NewDay did have available to them here, it should have been evident to NewDay that Mr B wouldn't in all likelihood be able to afford any further credit at that time, and that as such I'm satisfied that NewDay shouldn't reasonably have provided a second line of credit to Mr B. And it follows from this that I'll be upholding this aspect of Mr B's complaint accordingly.

Summary

As explained above, I don't feel that NewDay acted fairly towards Mr B by providing him with either credit account here. As such my final decision will be that I am upholding this complaint in Mr B's favour.

Putting things right

NewDay reimburse to Mr B's accounts all interest, fees, and charges, incurred or accrued on those accounts from the point of inception.

If these reimbursements result in either account having a credit balance in Mr B's favour, NewDay must pay this balance to Mr B along with 8% simple interest calculated to the date of payment.

If after the reimbursements any outstanding balance remains liable for Mr B to pay, then NewDay must arrange a suitable interest free repayment plan with Mr B.

Finally, NewDay must remove all adverse credit reporting relating to these accounts from Mr B's credit file.

My final decision

My final decision is that I uphold this complaint against NewDay Ltd on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 28 April 2022.

Paul Cooper
Ombudsman