

The complaint

Mr M complains that NewDay Ltd trading as Debenhams lent irresponsibly when it approved his credit card application and later increased his credit limit. Mr M also complains about the interest rates applied to his credit card by NewDay.

What happened

Mr M applied for a credit card with NewDay in June 2019. In his application, Mr M said he was employed with an income of £17,000 and renting. NewDay calculated Mr M earned £1,211 after deductions each month. NewDay applied a rent figure of £465 and £417 to cover Mr M's living expenses each month. NewDay carried out a credit search and found Mr M owed around £3,000 to other creditors with monthly repayments of around £138. NewDay says the credit search results didn't show Mr M had any adverse credit like defaults of County Court Judgements. NewDay applied its lending criteria and approved a credit card with a limit of £500.

NewDay went on to increase Mr M's credit limit in stages. NewDay increased the credit limit to £1,500 in February 2020, £2,000 in August 2020, £3,500 in November 2020 and £5,000 in April 2021. NewDay says that before each credit limit increase it checked Mr M's credit file and took his income and estimated outgoings into account before deciding to proceed.

In September 2021 Mr M contacted NewDay and explained he was struggling to maintain payments. NewDay amended Mr M's account so no further credit limit increases were offered.

Over the years since Mr M opened his credit card NewDay has increased the interest rate from 39.94% to 46.19%. Mr M's explained that the increase in interest rate has unfairly increased the payments making them less affordable. As a result, Mr M's told us he's struggling to repay the outstanding balance and that his payments have been mainly used to cover interest NewDay has charged.

Earlier this year, Mr M complained to NewDay but it didn't issue its final response within the eight weeks allowed so he referred the matter to this service. An investigator looked at Mr M's complaint. They thought that NewDay's original decision to lend was reasonable but felt it should've done more to check Mr M's circumstances before increasing the credit limit. But when the investigator looked at Mr M's bank statements they felt the credit limit increases appeared affordable and weren't persuaded NewDay had lent irresponsibly. The investigator also said NewDay was allowed to change the interest rate charges in line with the terms and conditions and weren't persuaded it had treated Mr M unfairly when he contacted it to advise he was struggling with payments.

Mr M asked to appeal and said NewDay had provided credit without completing an income and expenditure assessment but had refused to reduce his interest rate and monthly payments without completing one. Mr M confirmed he remained of the view that NewDay lent irresponsibly and had failed to provide support when he struggled with payments. As Mr M asked to appeal, his complaint has been passed to me to make a 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.

Before agreeing to lend or increasing the credit limit, the rules say NewDay had to complete reasonable and proportionate checks to ensure Mr M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

When Mr M applied for his credit card he advised he was earning £17,000 a year which NewDay calculated to leave him with £1,211 after deductions each month. Mr M's pointed out that NewDay didn't complete a full income and expenditure assessment with him at this stage, but I can see it did apply estimates for outgoings to the application. NewDay estimated Mr M's rent was £465 and that he had monthly living costs to cover items like food, utilities and travel of £465. Lenders are allowed to use estimates for a borrower's outgoings and I'm satisfied NewDay used reasonable figures when looking at Mr M's application.

I can also see that NewDay checked Mr M's credit file and there were no missed payments, defaults, County Court Judgements or other adverse information. The credit file showed Mr M owed around £3,000 to other lenders and that he was making monthly repayments of around £138. The original credit limit was low at £500 and I'm satisfied the information obtained by NewDay indicated Mr M was in a position to sustainably afford the credit card and that reasonable and proportionate checks were completed. I haven't been persuaded NewDay lent irresponsibly when it approved Mr M's application with a credit limit of £500.

With that said, I'm not persuaded that NewDay carried out reasonable or proportionate checks when approving any of the credit limit increases. The first credit limit increase in February 2020 tripled the credit limit to £1,500 which had a significant impact on the monthly payment Mr M had to make. Whilst I'm satisfied Mr M could sustainably manage repayments for £500, I'm not persuaded the information NewDay obtained before the February 2020 is as clear. For instance, NewDay used a rent figure of £85, down from £465 in June 2019 but doesn't say why. In addition, NewDay was using an increased income figure but given how close the credit limit was to the original application, I'm not persuaded that was reasonable.

NewDay's lending data doesn't provide a clear picture of what it found when considering the increase to £2,000 in August 2020. There is no estimated income, rent, cost of living or estimated disposable income figures noted in the data. As there's no evidence of any lending checks at this point I can't be sure the relevant checks were complaint and I'm satisfied NewDay should've done more before deciding whether to proceed.

By the time NewDay applied the third and fourth credit limit increases, taking the limit to £5,000 in April 2021, Mr M's other unsecured credit had increased to around £19,000. Given the increase in Mr M's other borrowing and the size of the credit limit NewDay was looking at, I'm satisfied it should've carried out a more comprehensive assessment of his circumstances before deciding whether to proceed.

As noted above, there's no set list of checks a lender has to complete but one option available to NewDay was to review Mr M's bank statements which is what I've done.

I've looked at bank statements for the months preceding NewDay's decisions to increase Mr M's credit limits. Having done so, I found that Mr M had between £500 and £600 available each month after meeting his existing commitments before the first credit limit increase in February 2020. Mr M's bank statements indicate he had around £450 available as disposable income each month before the credit limit was increased to £2,000 in August 2020. Mr M's income appears to have increased prior to the November 2020 decision by NewDay to increase his credit limit to £3,500 and his bank statements indicate he had around £1,000 available after meeting his regular outgoings and commitments. Finally, Mr M's bank statements indicate he had between £800 and £900 available as disposable income after his regular outgoings and commitments were met prior to the credit limit increase to £5,000 in April 2021.

Having reviewed Mr M's bank statements for the months preceding each credit limit increase, I'm satisfied they indicate Mr M had capacity to sustainably afford the repayments. Whilst I agree that NewDay should've done more before increasing the credit limit, I'm satisfied that if it had done so it would've still most likely have decided to proceed. I'm sorry to disappoint Mr M but I haven't been persuaded that NewDay lent irresponsibly.

Mr M's also complained about the interest rate applied to his credit card by NewDay. I can see the interest rate has, overall, increased and that Mr M's repayments have also gone up as a result. But I think our investigator made a reasonable point when they explained the credit card's terms and conditions allowed NewDay to change the interest rate. I've looked at the terms and they say NewDay can amend the interest to reflect changes in the Bank of England base rate. The terms also say NewDay can change the interest rate for a range of reasons, including to reflect changes in its underlying costs or a change in the borrower's circumstances for example. There's nothing in the terms that says the interest rate has to track the Bank of England base rate directly. I'm sorry to disappoint Mr M as I can understand why he's frustrated that the interest rate has increased over time, but I haven't found that NewDay has made a mistake or acted outside of the terms he accepted when applying for the credit card by making changes to the interest rate.

Mr M's told us he doesn't feel NewDay treated him fairly when he raised concerns over repayments previously. I can see Mr M contacted NewDay in September 2021 to explain he was struggling to maintain increased payments. NewDay's contact notes show Mr M wanted to reduce payments to around £80 a month and that it asked him to complete an income and expenditure assessment. But the contact notes say Mr M was at work at the time and agreed to call back at a more convenient point. I wasn't able to see any evidence Mr M called back following this conversation. And I note that NewDay stopped applying any credit limit increases to Mr M's credit card from that point which was a reasonable step to take.

I can see that in August 2024 NewDay was able to complete an income and expenditure assessment with Mr M and that it agreed to an arrangement where he makes payments of £70 a month for six months. At the end of the current plan's term, if Mr M still need support he can go back to NewDay to see what other options it can provide. I'm sorry to disappoint Mr M but I'm satisfied that NewDay offered to engage with him in 2021 and when he was able to complete a full income and expenditure assessment earlier this year it took his

circumstances into account and provided breathing space by agreeing a payment plan. I haven't been persuaded that NewDay treated Mr M unfairly.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think NewDay lent irresponsibly to Mr M or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

I'm very sorry to disappoint Mr M but as I haven't been persuaded NewDay lent irresponsibly or treated him unfairly in some other way I'm not upholding his complaint.

My final decision

My decision is that I don't uphold Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 19 December 2024.

Marco Manente
Ombudsman