DRN-5173143

The complaint

Mr R complains that NewDay Ltd irresponsibly lent him money on a credit card.

What happened

Mr R applied for a credit card with NewDay in September 2019. NewDay offered him a card with an initial credit limit of £1,200.

NewDay subsequently increased the credit limit on the following occasions:

- January 2022 – increase to £2,450.
- May 2022 – increase to £3,700.

With the assistance of a representative, Mr R complained to NewDay in 2024. He said that NewDay failed to carry out proper checks, and as a result he was given a credit card, and increased limits, that were unaffordable for him.

NewDay said it had lent responsibly. At the time of the initial lending it took into account what Mr R said in his application, and checked his income and credit commitments alongside modelled expenditure. At the time of the limit increases it took into account how Mr R had been using the card as well as updated affordability and credit commitment checks. It said it often lent to customers with a less than perfect credit history, so offered a lower initial limit, increasing it later depending on how the card was managed.

Our investigator thought the original lending decision was fair, but that NewDay shouldn't have later increased the limits. Mr R's representative accepted that. As NewDay didn't reply, the case comes to me 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.

When deciding whether to lend, NewDay was required to consider whether the lending would be affordable and sustainable for Mr R. There's no set list of checks it must carry out, but it must carry out checks which are proportionate in the circumstances – taking account of factors such as the nature and amount of the credit, the amount of any repayments, Mr R's circumstances, and so on.

At the time of the initial application, Mr R declared that his income was £18,000, giving a net monthly income of around £1,373. NewDay noted from his credit file that his other credit commitments were around £35 per month. It assessed his expenditure on housing and other essentials as around £680 per month, leaving around £650 disposable income. It therefore considered the card, with a limit of £1,200, to be affordable for Mr R.

I think this was a reasonable decision. I'm satisfied that the checks NewDay carried out were proportionate in the circumstances – it verified Mr R's income and credit commitments via a credit reference check that showed what other credit he had as well as the regular income received into his current account. And it used modelled expenditure based on households of a similar type to Mr R, which is permitted by the lending rules. Based on those checks, I agree that the card and limit appeared affordable for Mr R.

The card then continued in place for some time before NewDay offered a credit limit increase in 2022. So I've gone on to think about the checks it carried out before that increase.

NewDay says that when considering a limit increase, it looks again at affordability and credit commitments, as well as taking into account how the card has been used.

In the months leading up to the January 2022 limit increase, Mr R's use of the card had increased dramatically. In September 2021 his statement balance was nil, in October £116 and in November £190. But then in December it increased to £716 and to £929 in January. In December Mr R took a £350 cash advance. He also made his monthly payment late and was charged a late payment fee. He took a further cash advance of £175 in January.

At the same time, NewDay assessed Mr R's monthly income as £2,864 and expenditure as £958 plus £110 on credit commitments. So on the face of things the limit increase appeared affordable. But NewDay didn't ask Mr R for his updated income at this time, it took the figure from current account turnover data obtained from his credit file. Given that this meant his income had more than doubled in the three years since taking out the card, I would have expected NewDay to have carried out further checks to confirm this was in fact the case. I would also have expected it to have carried out further checks to understand why Mr R's expenditure on the card had increased to such an extent in recent months – especially bearing in mind that cash advances on a credit card can be a risk factor.

I'm not therefore persuaded that NewDay made proportionate checks at the time of the first credit limit increase. And I'm not persuaded that it was responsible to have increased the limit in their absence. Even if NewDay had carried out further checks to confirm Mr R's income and expenditure, and was able to do so, I think it still wouldn't have been responsible to increase the credit limit by so much given that Mr R had recently shown signs of not managing the existing limit by making a late payment just the month before the increase – at a time when the balance was increasing significantly.

The second credit limit increase took place five months after the first, with Mr R's credit limit then three times what it was before the first increase.

At the time of the second increase, NewDay noted Mr R's income as £3,398 and his expenditure as £1,093 plus £212 in credit commitments. Again, this was taken from current account turnover and credit reference checks, and modelled expenditure. But I'm not persuaded relying on those checks was proportionate. They showed that Mr R's income had increased substantially again – but so had his credit commitments. I think it would have been reasonable to verify whether Mr R's income really had increased 20% in five months, or whether it appeared to have because additional credit was being paid into his current account.

In the months between the two increases, Mr R's balance had continued to increase. The statement balance in February 2022 was £1,713, in March it was £1,852, in April £1,982 and in May £2,254. Mr R took cash advances of £600 in February, £100 in March and £100 in May. The February figure was the total of 8 separate cash withdrawals. Mr R paid the minimum payment each month.

Since November 2021, then – the six months leading up to the second increase – Mr R's borrowing had increased by over £2,000, he had taken out over £1,300 in multiple cash advances, and had only made the minimum payment each month. Again, I think this ought to have led NewDay to question whether a further limit increase was responsible.

For all those reasons, I'm not persuaded that NewDay acted fairly when increasing the credit limit on both occasions.

I've also thought about whether there was an unfair relationship, within the meaning of s140A Consumer Credit Act 1974, between Mr R and NewDay as a result of the credit limit increases. But that doesn't change my view of the complaint or my decision to uphold it.

Putting things right

To put things right, NewDay should:

- Reduce the credit limit to £1,200.
- Rework the account, removing all interest fees and charges applied to balances above £1,200.
- If this results in a credit balance, NewDay should refund the credit amount to Mr R, adding simple annual interest of 8% running from the date of each overpayment making up the credit balance to the date of refund. NewDay may deduct income tax from the 8% interest element, but should tell Mr R what it has deducted so he can reclaim the tax if he's entitled to do so.
- If this results in a continued debit balance, to the extent the debit balance exceeds the £1,200 credit limit NewDay should seek to agree an affordable repayment plan with Mr R for the excess, not charging interest or fees on the part of the balance over £1,200.
- Remove any adverse information arising from a balance above £1,200 from Mr R's credit file.

My final decision

My final decision is that I uphold this complaint and direct NewDay Ltd to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 1 April 2025.

Simon Pugh
Ombudsman