

The complaint

Ms T complains that NewDay Ltd, trading as Aqua, lent to her irresponsibly when it provided her with a credit card and later increased the credit limit on that card.

What happened

Ms T took out a credit card with NewDay in January 2012. The initial credit limit was £350.

Between July 2014 and May 2017, NewDay increased Ms T's credit limit seven times with it eventually reaching £7,350. The amounts of each increase varied.

The outstanding balance on the card was paid off in full in April 2019. Ms T has provided evidence she took out a loan with another company to clear this balance.

In May 2019 Ms T complained to NewDay that it had acted irresponsibly when lending and increasing the credit limits. She said she'd taken this card out to improve her credit score but had been granted unaffordable borrowing at a high rate of interest that she would never have realistically been able to repay based on the level of monthly repayments. She said she'd managed to take a loan to consolidate and repay the borrowing, but she felt strongly NewDay shouldn't have lent to her. NewDay didn't uphold Ms T's complaint so it was passed to our service to consider.

NewDay objected to us looking at events more than six years before the complaint was made in May 2019 – as it felt these issues had been raised too late. Our investigator agreed, so felt we couldn't look at anything that happened before May 2013 – specifically the initial decision to provide the card in January 2012. But he felt we could consider everything since May 2013 – all of the credit limit increases. Ms T accepted this.

Our investigator then considered the merits of Ms T's complaint. And he felt that NewDay had acted irresponsibly as he thought the information provided suggested it hadn't carried out sufficient checks before increasing the credit limit on Ms T's credit card. So, he recommended that the complaint be upheld and NewDay refund all interest applied to the account since the first limit increase in July 2014.

NewDay did not agree with the investigator's opinion. It said it felt it had carried out appropriate checks and the lending was granted in line with its criteria. It also said Ms T had the option to opt out of any limit increases.

As NewDay did not agree with the investigator's opinion, the complaint has been passed to me to make a final decision on the matter.

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 a business needs to ensure it does so in a responsible manner. There isn't a set requirement of what a business must do in every instance. But they are expected generally to carry out appropriate and proportionate borrower focused checks around the affordability of any lending, before providing it, and to ensure a borrower can afford to make and sustain the repayments, taking account of their financial situation.

NewDay increased Ms T's credit limit, the amount of lending it was providing, a number of times in the space of under three years.

- In July 2014 it increased the credit limit from £350 to £700 – doubling it.
- In November 2014 it increased the limit again to £1,450 – again more than doubling the lending.
- In April 2015 it increased the limit to £2,550 and in October 2015 raised it to £3350 – increases of £1,100 and £800 respectively.
- The limit was raised to £3,850 – a £500 increase – in June 2016.
- Then in December 2016 it increased the credit limit by a further £2,000, bringing it to £5,850.
- Finally, it increased lending again in May 2017 by raising the limit another £1,500 to £7,350.

In the context of the lending I think all of these credit limit increases were significant. The first two more than doubled the borrowing and every increase after that was for a substantial sum – often several times the original lending.

NewDay has provided the information it used when deciding to increase the lending it made available to Ms T. There is no evidence to suggest that it asked for details of her income or expenditure at the time of each increase to establish her specific circumstances or to determine if she could afford the increased borrowing.

NewDay has said it used information about how Ms T had managed her NewDay account, estimated affordability information and information from credit reference agencies about how she'd managed other borrowing. And having considered that it felt the increases to the credit limit were responsible and affordable and in line with its criteria. I'm not commenting on NewDay's lending criteria – as that is a matter for its commercial judgement. But based on what I've seen I don't think the checks it carried out prior to lending were proportionate or sufficiently borrower focussed.

As I've said, NewDay didn't request income and expenditure details. So, it didn't have accurate details of Ms T's disposable income at the time it increased the lending it made available to her. So, it couldn't know with confidence that the new lending or repayments were affordable. NewDay has said it used industry standard estimations in relation to this – but this information was not specific to Ms T's actual circumstances.

NewDay has said the way Ms T managed her account was a factor in its decisions. I've also reviewed this information.

For over a year before the first limit increase in July 2014, Ms T's balance had been close to her credit limit. And two months prior to the increase she had in fact exceeded her credit limit and incurred charges.

Almost immediately after the limit was first increased to £700 the new lending was spent, bringing her balance to its limit. And in fact, she went over the new limit in September 2014. But yet her credit limit was still increased two months after this.

Again, straight after the limit was increased to £1,450, Ms T spent up to her limit, and in fact exceeded it, in February 2015. But despite this the limit was still increased again in April 2015.

Once this limit increase was made, the outstanding balance again rose to around the new limit – exceeding the credit limit in three of the first four months after the increase. Yet NewDay increased the limit again a couple of months later. And indeed, in the run up to each subsequent increase the outstanding balance was close to or at the limit and after the increases were made, the new lending was spent pretty much straight away.

All the while the repayments made by Ms T towards the card, with some exceptions, were often the minimum required repayment or marginally above that level.

Taking all of this into account, I think the way the account was operating actually indicated Ms T may've been having problems managing the existing credit limits prior to NewDay increasing the lending. So, I'm not sure this supports NewDay's position that the increases were appropriate. And I think it should've in fact prompted NewDay to consider Ms T's circumstances further and whether she needed assistance with her current borrowing, rather than increasing the level of borrowing available to her.

Ms T has also provided us a copy of her credit file. This shows that around 2014 when, NewDay began offering credit limit increases to Ms T, she'd made regular use of short-term loans. Again, I think this suggest she may've been having trouble managing her finances at that time. I also note this information is at odds with the information NewDay has shared, that it says it obtained from credit reference agencies.

The credit file also shows that the total amount of unsecured debt in Ms T's name began increasing significantly around 2016. And this wasn't just due to the extra lending NewDay provided. So again, I think this indicates that Ms T may've been having issues with her finances as her indebtedness was increasing and that allowing further borrowing, as NewDay did, could potentially make the situation worse.

NewDay has said it gave Ms T the opportunity to opt out of the credit limit increases. But giving this option doesn't excuse or allow a business to lend in an unaffordable way.

And based on everything I've seen, I don't think NewDay did enough at the time of granting the credit limit increases to check that they were affordable to Ms T, or sustainable. So, I don't think I can reasonably say that it lent responsibly.

I've gone on to think about whether the increased lending would've still been approved if further checks had been done.

Based on the information that I've seen, including Ms T's current account statements, details of her salary and her credit file, I don't think the increased lending would've been granted had NewDay carried out an appropriate level of checking. The information indicates that Ms T's regular expenditure meant she had little disposable income each month and was often already relying on credit from other sources, including short term lending, to manage her finances. So, the additional burden of the increase in monthly repayments associated with the increased lending by NewDay would've likely been considered unaffordable.

In summary therefore I think NewDay was wrong to grant the credit limit increases on Ms T's credit card between July 2014 and May 2017. So, I've thought about what NewDay should do to put that right.

Ms T has had the use of the credit. So, I don't think it'd be reasonable to say that the principal amount borrowed by her in using the card should be written off. But I do think the costs incurred, associated with the additional borrowing, should be refunded – interest and charges on these additional amounts.

As I mentioned earlier, I have been unable to consider the initial decision to lend as it falls outside of our jurisdiction. And as such I don't think I can reasonably say that interest charged on borrowing up to the original credit limit of £350 should be refunded. But I think all interest charged on balances above this amount, following the increases to the credit limit, should be refunded.

I also don't think any adverse information should be recorded on Ms T's credit file in relation to the credit limit increases – such as instances where the credit card was above its limit, when the limit should not have been increased. I say this because, without NewDay's mistakes in granting the credit limit increase in the first place I find it unlikely these situations would've occurred.

My final decision

For the reasons given above my decision is that I uphold Ms T's complaint.

To put things right NewDay Ltd, trading as Aqua, should;

- Calculate the amount of interest and fees Ms T paid on her credit card on all balances over £350, following the increases to her credit limit in July 2014, and refund this amount to her. NewDay should send a copy of the calculation to Ms T for reference.
- Ensure any adverse information related to these credit limit increases are removed from Ms T's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 19 February 2021.

Ben Stoker
Ombudsman