

The complaint

Mr M's complaint about NewDay Ltd trading as Aqua (NewDay) relates to Irresponsible lending and increases in his credit limit.

What happened

Our investigator's background summary covered all the relevant facts and issues, and is known to both Mr M and NewDay, so there is no need for me to repeat it here in any detail. Instead I will focus on giving the reasons for my decision. So, if I've not mentioned something it's not because I've ignored it, rather it's because I don't think it's of direct relevance to the issues I need to deal with.

In April 2018 Mr M applied for and obtained a credit card with NewDay. In the course of the next 12 months he received 4 increases to his credit limit which he regards as irresponsible lending on NewDay's behalf given his financial situation during that time, which he maintains would have been obvious to NewDay.

Upon complaint to NewDay, they responded to confirm that they had reviewed Mr M's account prior to each increase noting how he had managed his account thus far, taking into account other borrowing and the absence of any information from Mr M that he was experiencing any financial difficulty. As such they did not consider they had acted irresponsibly as they had concluded any borrowing Mr M had inside those limits was affordable and could be repaid in a sustainable manner.

Mr M was unhappy with NewDay's final response and so approached this service to see if we could assist in resolving the dispute. An investigator looked into the complaint, and having done so, concluded that NewDay hadn't done anything wrong.

Mr M didn't agree with our investigator's view and asked for the complaint to be passed 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.

The role of the Financial Ombudsman Service is to mediate individual disputes between consumers and businesses, and to award redress where it is appropriate.

I have considered both sides' views in considering whether NewDay acted fairly and reasonably. I've looked at the issues raised and considered all the available evidence. I must make an independent decision about what I think is right for each case, and that's what I've done here. In this case, I don't think that NewDay has done anything wrong and I'll explain why.

The Lending Code requires a business to assess whether a borrower will be able to repay their borrowing in a sustainable manner, by considering information from Credit Reference Agencies (CRAs), including existing financial commitments where provided, as well as the following where they may be appropriate:

- The type and amount of credit being sought.
- How the customer has handled their finances in the past;
- Any internal credit scoring techniques;
- The customer's declared income;
- Why the customer wants to borrow the money and for how long; and
- Any security provided

The evidence here shows that on application Mr M declared an income of £42,500 and £9,400 in unsecured borrowing. Historically, Mr M had had 2 defaults recorded against him, the last one being over 5 years before. There were no Court Judgments recorded, and although Mr M owed money to a Payday loan company, no arrears were recorded within the previous year. Importantly there is no record of Mr M advising NewDay that he had any concerns about his own financial position. Objectively, an initial credit limit of £1,200, set against that background, was in my view reasonable and affordable at that time.

The first increase to Mr M's limit was 4 months later, which doubled the credit limit to £2,400. NewDay's review of Mr M's account management showed he had not exceeded his credit limit, had no recorded late payments, and was on occasion paying more than the minimum. NewDay also conducted a credit check which revealed no concerns. Again, Mr M did not bring to NewDay's attention that he had any concerns about his financial position, and on this occasion, he also spoke to NewDay by telephone when he called to accept their offer to increase the limit. Based on this information, there was nothing to indicate that Mr M could not afford to repay the borrowing with NewDay.

The second increase in limit, of another £1,200 up to a credit limit of £3,600 occurred 4 months after the first and being 8 months after obtaining the card. The third increase was another 4 months after that and up to £5,350. NewDay conducted reviews prior to both increases, and found a very similar picture, being the absence of anything which would indicate Mr M was unable to afford the increase. I've noted that in the intervening period Mr M was managing his account well never exceeding his limit and frequently repaying more than the minim. So, I can't see that there is any indication from his account management that indicates he was unable to afford the borrowings on his card, in fact quite the opposite.

I have of course seen from the evidence that Mr M was using Payday loans, but the use of such finance does not automatically equate to financial difficulty for a customer, or that other borrowing is unaffordable. Looking at the overall picture that would have presented itself to NewDay, on the application and subsequent increases in credit limits, it does not indicate that the level of credit being advanced was unaffordable. The checks undertaken by NewDay revealed no repayment plans arranged, no arrears, no late payments, no exceeding his credit limit, and only one Payday loan being reported at any one time. The information from the CRA also shows there hadn't been any arrears on payday loans in the last 12 months, and his last default was more than 5 years ago. I have also noted Mr M reports he had 4 credit cards, 1 unsecured loan and 2 secured loans, but the point remains that it is not simply the overall level of debt that is critical, it is the affordability of any further credit being advanced.

So, overall, I do think that proportionate checks were carried out by NewDay and that revealed the borrowing on the credit card was sustainable as Mr M was repaying it without undue difficulty and without having to borrow from elsewhere to meet his repayments. I can't see any evidence that in making the increases to his credit limit it would have meant Mr M would incur financial difficulties or experience adverse consequences.

So, although Mr M will probably be disappointed with my decision, I can't say NewDay has acted unfairly or unreasonably here and I'm not upholding this complaint.

My final decision

For the reasons set out above I do not uphold the complaint against NewDay Ltd trading as Aqua.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 18 August 2020.

Jonathan Willis
Ombudsman