

The complaint

Mr P complains that NewDay Ltd offered credit limit increases on his Aqua credit card, even though these weren't affordable for him.

What happened

In April 2013 Mr P applied for an Aqua credit card. NewDay opened an account in his name with a credit limit of £500, which was increased to £1,250 a few months later. Over the following three years his credit limit was increased a further six times, until, by January 2016, it was £6,400.

In November 2018 NewDay wrote to Mr P (in line with regulatory requirements) noting that, in the previous 18 months, he'd paid more in interest, fees and charges than he'd repaid towards the amount he'd borrowed. By February 2019 the account was in arrears; Mr P later took out a loan to repay the credit card debt.

He complained to NewDay about the increases in his credit limit. He didn't feel that adequate checks had been made before they had been offered to him. He said that further checks would have shown he had other borrowing and that he made only minimum payments.

NewDay said in response that it had carried out appropriate checks with credit reference agencies and that these didn't reveal any particular cause for concern. The account was designed as a "low and grow" account – where the customer starts with a low credit limit which then increases. When Mr P made large payments by taking out other borrowing, it wouldn't have known the source of those funds or had any realistic means of finding out. It didn't agree that it should have carried out further checks or that it had acted inappropriately.

Mr P complained to this service, and one of our investigators considered what had happened. She noted that in November 2014 the credit limit had been raised from £2,300 to £3,050, and so was more than five times the original limit. She felt that NewDay should not have made this or any subsequent increases and recommended that it refund all interest and charges from that point.

NewDay didn't accept the investigator's recommendations and asked that an ombudsman review the case. It had, it said, followed the regulator's rules in the checks it made. It was unreasonable to expect it to have checked Mr P's bank statements and it didn't have access to as much credit information as it does now. Mr P had managed his account well and hadn't shown any signs of financial difficulty or indicated to NewDay that he was finding it difficult to manage his account. Once it found out that Mr P was having difficulty meeting his payments, it acted positively and sympathetically to try to help – as it's required to do.

I reviewed the case and, because I was minded to reach a different conclusion, issued a provisional decision. I set out below the text of my findings:

When a financial business makes a decision to lend money to a consumer, it should make checks ensure that the borrower can afford the repayments without suffering financial difficulties as a result. Similar principles apply when a lender is granting a credit facility,

including making changes to the credit limit on a credit card account.

The checks made should be appropriate and proportionate; generally, that means that the larger the facility, the more checks are needed. But what is required will vary from case to case.

I accept that NewDay here checked information available from credit reference agencies and looked too at the way Mr P had run his credit card account. I accept as well that, whilst there were occasional missed payments, these were small in number and not an indication of financial difficulty.

The regulator's rules say that, when considering an appropriate credit limit on a credit card account, the card provider should assume that the cardholder will draw down the full amount available at the earliest opportunity and repay it over a reasonable period. The assumption of what constitutes a reasonable period should have regard to a typical period and other terms of a fixed-rate loan for a similar amount.

In my view, Mr P's income and expenditure were such that it was likely he would have had loans approved for the amount of each credit limit increase, up to and including the increase to £6,400 in January 2016. I note that he was in fact able to take out a loan to clear the balance on his credit card account.

In my view it's significant too that, by increasing Mr P's credit limit, NewDay was providing Mr P with the option of using a facility, rather than providing immediate borrowing. It was open to him to decline the increases; even if he didn't do that, he wasn't obliged to use his card up to the limit he'd been given.

NewDay has pointed out too that Mr P didn't suggest until fairly late that he was struggling to repay his credit card debt. As I've explained, NewDay was under a duty to ensure that he could meet his repayment obligations and to carry out checks before increasing the credit limit, but I do still think it's relevant that there were steps Mr P could have taken to help himself – including declining credit limit increases or telling NewDay if he was having difficulty making repayments.

I note as well that Mr P, in bringing his complaint, said that his other financial commitments meant that he had to start using his card when he didn't really want to. Of course, that wouldn't have been possible – or at least not to the same extent – had he had lower credit limits, but it does suggest to me that the increases in the credit limit weren't the sole cause of his difficulties. Perhaps more importantly though, it suggests that, had NewDay not offered increases in Mr P's credit limit, his overall position I may not have been particularly different.

In conclusion, therefore, I'm satisfied that NewDay made appropriate checks before offering Mr P increases in his credit limit. It wouldn't be fair to require it to refund interest and charges incurred as a result.

I didn't recommend that NewDay do anything further to resolve Mr P's complaint. Mr P replied to say that he didn't accept my provisional conclusions. He said his credit profile had been poor for many years and that checks should have shown he was struggling financially. He had various loans and credit cards and had missed payments on phone contracts. The increases in the credit limit on his Aqua card only made matters worse.

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.

Having done so, however, I haven't changed my view from that set out in my provisional decision. As I explained, I was satisfied that NewDay had carried out credit checks, but they hadn't indicated that it should not increase the credit limit. Of course, credit checks can only provide a limited picture of somebody's finances and may not have shown how difficult Mr P was finding things, but I don't believe I can fairly hold NewDay responsible for that.

I remain satisfied that NewDay carried out appropriate checks before increasing Mr P's credit limit. Further, for the reasons explained in my provisional decision, I'm not persuaded that his position would have been any worse overall had it not done so.

My final decision

For these reasons, my final decision is that I don't require NewDay Ltd to do anything further to resolve Mr Ps' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 7 December 2020.

Mike Ingram

Ombudsman