

## **The complaint**

Mr D is unhappy that NewDay Ltd, trading as Aqua, approved him for a credit account which he feels was unaffordable for him at that time. Mr D is also unhappy that NewDay Ltd, trading as Aqua, subsequently increased the credit limit on the account, which he also considers was unaffordable for him at that time.

## **What happened**

In September 2017, Mr D applied for a credit account with NewDay. Mr D's application was approved, and NewDay issued Mr D with a credit account with an initial credit limit of £300.

In March 2018, NewDay increased the credit limit on Mr D's account to £1,200. NewDay also increased the credit limit on Mr D's account a further three times, ending with Mr D's credit limit being increased to £3,700 in April 2019.

In July 2020, Mr D raised a complaint with NewDay on the basis that the initial credit application, as well as the subsequent credit limit increases, had been unaffordable for him at those times.

NewDay looked at Mr D's complaint. They explained that they had conducted checks into Mr D's financial position at the time of the account application and the later credit limit increases, and there had been nothing resulting from those checks that related to the initial application or the first two credit limit increases that gave them cause to consider that the credit being offered wasn't affordable for Mr D at those times.

However, NewDay did acknowledge that their review into Mr D's complaint had led them conclude that it might have been the case that the last two credit limit increases – from December 2018 onwards - may not have suitable or affordable for Mr D. So, NewDay partially upheld Mr D's complaint and reimbursed him proportionate interest from this date, as well as interest and fees, totalling approximately £1,280.

Mr D didn't feel that NewDay's response went far enough, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that the information available to NewDay at the application shouldn't have given NewDay cause to suspect that the initial credit limit was unaffordable for Mr D, but they did feel that the information available to NewDay at the time of all subsequent credit limit increases should have given NewDay cause to suspect that those credit limit increases would be unaffordable for Mr D. So, they recommended that the complaint be upheld in Mr D's favour on that basis.

NewDay didn't agree with the recommendation put forward by our investigator, so the matter was escalated 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.

It's for a business to decide who it will offer credit to, and if so, on what terms. What this

service would expect would be that the business conducts reasonable and proportionate borrower focussed checks at the time of the account application, as well as at the time of any later credit limit increases, to ensure that the credit being offered is affordable for that customer at those times.

NewDay say that they've done that here. They took details of Mr D's income and expenditure at the time of the account application to ensure that Mr D had sufficient disposable income to be able to afford the credit account, and they also reviewed Mr D's credit file to gain a better understanding of his wider financial position. And NewDay contend that there was nothing resulting from these checks to suggest that a credit account with an initial credit limit of £300 would have been unaffordable for Mr D at that time.

Having reviewed the information available to NewDay at the time of the credit account application, it's difficult to consider NewDay's conclusion unreasonable here. Mr D's credit file did demonstrate that he had a significant amount of existing borrowing, with outstanding debt of approximately £19,000. But the credit limit being offered in this instance was only £300, and when considered alongside Mr D's stated income of approximately £20,000, I'm satisfied that the approval of the credit account with a credit limit of £300 shouldn't have been considered unaffordable for Mr D at that time.

However, in the period between Mr D being first approved for the credit account in September 2017 and the time of the first credit limit increase – from £300 to £1,200 – in March 2018, Mr D's credit file appears to demonstrate a deterioration in his financial position.

I say this because in the six month period between the account being opened and the credit limit being increased, Mr D took out five new credit accounts, comprising four payday loans and another credit card, such that his total existing debt at the time of the first credit limit increase in March 2018 had risen to approximately £23,000 – an increase of over 20%. This appears to suggest that Mr D had a significant need for credit at that time, which in turn can be a strong indicator of financial difficulty. And NewDay don't appear to have taken this into consideration.

In addition, NewDay increased Mr D's credit limit by 300% - from £300 to £1,200. And it's difficult to rationalise that such a significant increase in Mr D's credit limit would have been approved in light of the deteriorating state of Mr D's financial position without first conducting further checks into Mr D's financial position at that time, as I feel would have been both reasonable and proportionate.

NewDay have explained that they did conduct a review of Mr D's financial position before approving the first credit limit increase. This included a review of Mr D's usage and management of the account up to that time which demonstrated that Mr D was using the account responsibly and for 'normal' usage, including retail and social spend, and so didn't highlight any areas for concern.

NewDay have also stated that they also conducted an assessment of Mr D's credit file before increasing the credit limit in March 2018, and that this didn't flag Mr D's credit file as being of any concern.

Ultimately, NewDay's position here is that the checks that they undertook demonstrated that Mr D had been managing his NewDay credit account and his external existing credit responsibly and without incident, such that there was nothing to suggest that Mr D should be suspected as being in financial difficulty at that time.

I can understand NewDay's position here – to a degree – and NewDay have explained to

this service that they don't undertake risk reviews based on opinion, but rather use a series of algorithms. Unfortunately, it's difficult not to conclude that in this particular instance an unfair outcome has been arrived at potentially because of this, because while it may have been the case that the deteriorating position of Mr D's financial position – as detailed previously above - may not have been visible within the parameters of the algorithms that NewDay use, it doesn't follow from this that Mr D wasn't potentially in financial difficulty at that time.

The sharp increase in Mr D's total amount of external debt, especially when considered as a percentage of his declared annual income, as well as the number of new credit accounts that Mr D was applying for, does, in my opinion, provide a reasonable cause to suspect that Mr D may have been in financial difficulty at that time, such that additional, more proportionate borrower focussed checks into Mr D's financial circumstances were warranted before the implementation of any proposed credit limit increase - especially one where the increase being considered was many multiples of the existing credit limit at that time.

Of course, it may have been the case that these additional checks wouldn't have unearthed any additional information that might have ultimately led to NewDay deciding not to increase Mr D's credit limit. But I'm not convinced that this is the case in this instance, and I say this because Mr D's bank account statements show a high number of gambling transactions such that it's reasonable to suspect that Mr D may have potentially had a gambling addiction at that time.

NewDay have also stated that Mr D was not obliged to accept the credit limit increases and could have declined them if they were unaffordable for him. But I'm not convinced by this argument, and I'd suggest that it's more incumbent on NewDay to ensure that they're not offering credit to individuals in financial difficulty rather than expecting those individuals to decline further credit during times when they are financially vulnerable.

I realise that this won't be the outcome that NewDay were wanting here, but it follows from what I've explained above that I'll be upholding this complaint in Mr D's favour on the basis that I feel that the information available to NewDay at the time of the credit limit increases was sufficient to provide reasonable cause for concern that the credit limit increase might not have been affordable for Mr D at those times.

Additionally, I also feel that it's more likely than not that had NewDay undertaken further checks into Mr D's financial position at that time, as I believe was warranted by the information available to NewDay at those times, that it's probable, on balance, that NewDay should have concluded from that additional information that Mr D couldn't afford the credit limit increases being considered.

I hope that NewDay can understand, given what I have explained above, why I have made the final decision that I have.

### **Putting things right**

NewDay must refund all interest, fees, and charges to Mr D's account from the point of the first credit limit increase for the balance over £300.

If this results in a credit balance in Mr D's favour, NewDay must pay this balance to Mr D along with 8% simple interest calculated from the date of the interest, fee, or charge being refunded to the date of the payment to Mr D.

NewDay must also remove all adverse information relating to this credit account from March 2018 onwards from Mr D's credit file.

**My final decision**

My final decision is that I uphold this complaint against NewDay Ltd on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 23 June 2021.

Paul Cooper  
**Ombudsman**