

The complaint

Miss H complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved her credit card then quickly increased the credit limit.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. In my provisional decision I said:

Miss H applied for a credit card with Aqua and said she was employed, earning £30,000 and lived at home with her parents. Aqua says it looked at Miss H's credit file and approved the application. A credit card in Miss H's name was opened in May 2019 with a £450 credit limit. In August 2019 Aqua increased the credit limit to £1,700. The next month, Aqua found Miss H had entered a payment arrangement with another lender and reduced her credit limit to £1,400.

Miss H complained and Aqua responded on 15 July 2020. Aqua said it shouldn't have increased Miss H's credit limit but didn't agree the original decision to open her credit card was wrong. Aqua refunded interest and charges applied above the £450 limit. But Aqua also said the decision to increase the credit limit was reasonable.

Miss H referred her complaint to this service and it was passed to an investigator. They thought Aqua had dealt with the complaint fairly. Miss H asked to appeal, so her complaint has been passed to me to make a decision.

What I've provisionally 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 offer Miss H a credit card or increase the limit Aqua needed to complete proportionate affordability checks so it could consider whether the credit was affordable and sustainable. Aqua needed to think about whether repaying the debt was sustainable and if it would cause difficulties or other adverse issues for Miss H.

There's no set list of checks a lender has to complete and it's not the role of our service to tell a lender how to assess an application. And the nature of proportionate checks can change depending on a number of factors, focused on the specific circumstances of a consumer. For example, the amount and cost of the credit, the borrower's financial history, personal circumstances and any indications they may be vulnerable or suffering financial difficulties are all things that can influence the checks a lender completes.

Aqua has sent us details of Miss H's application. It shows she was living with parents, employed with a declared income of £30,000 and had unsecured debts of over £28,000. Miss H had no adverse credit recorded. Aqua offered Miss H a reasonably modest credit limit of £450. In my view, the checks Aqua completed before approving the credit card were proportionate to the type of credit being applied for and its decision to proceed was

reasonable.

Miss H's credit card was opened in May 2019 with a limit of £450 and by July 2019 she owed £438. In August 2019 Aqua says it reviewed Miss H's account and decided to increase her credit limit from £450 to £1,700. I've considered whether Aqua's decision to increase the credit limit by £1,250 was reasonable in Miss H's case.

Aqua has told us that before increasing Miss H's credit limit it took her account history, information from the credit reference agencies and the risk factors it uses. Aqua says its decision to increase the credit limit was reasonable, based on what it knew about Miss H. Aqua has pointed out that Miss H's credit file didn't show a payment arrangement with another lender until the month after it increased her credit limit, at which point it reduced it to £1,400.

Whilst I can see Miss H had maintained her payments, I think it's important to note the account was open for under three months with no more than two payments having been made before the limit was increased. That only gave a very limited amount of time for Aqua to collect information about how Miss H managed her account. In addition, the increase from £450 to £1,700 was substantial totalling £1,250. Given the level of increase, I'd have expected Aqua to consider whether the information it held on file was sufficient to assess whether the level of debt it was proposing was sustainable.

Aqua has told us it took the information on Miss H's credit file into account before it decided to increase Miss H's credit limit. But Aqua recorded that Miss H had £28,100 of unsecured debt when she first applied and I can see its credit search found that had increased to £32,153 in the month before the credit limit went up. That's an increase in unsecured borrowing of over £4,000 in around three months and also meant Miss H owed more than her declared annual income. Even taking the £450 credit card debt Miss H acquired with Aqua, that means she borrowed a further £3,500 from other sources. In my view, this indicates Miss H was struggling with unsecured debt in the period before Aqua increased her credit limit.

As I've said above, Miss H had only had an Aqua card for a couple of months, the level of limit increase was substantial and her credit report showed a sharp uptake in unsecured borrowing within a relatively short period. Whilst I understand Aqua looked at risk indicators, estimates of expenses and income as well as Miss H's credit file, I think the information available should've caused it to complete further checks.

The month after Aqua increased Miss H's credit limit it found information on her credit file that meant it took the decision to reduce it to £1,400. Miss H has told us that during this period her unsecured borrowing was going up, her phone bill was very high and she has found the increased debt on the Aqua card difficult to maintain. I note Aqua took the step of closing Miss H's credit card for future spending, which means the debt won't go back up.

When Aqua responded to Miss H's complaint it said it shouldn't have given her a very large credit limit increase and I agree. For the reasons I've given above, I think Aqua should've done more to check the new debt was sustainable and that Miss H could afford to repay it before agreeing to proceed. Had it carried out more checks, I think Aqua would've decided not to proceed with the credit limit increase. I agree with Miss H that Aqua appears to have lent irresponsibly here.

Miss H has told us she feels the balance above the £450 original credit limit should be written off, but I don't agree. Miss H did have the benefit of the money she spent, so I think it's reasonable that she repays it. But, I don't think it would be fair for Aqua to apply interest and charges to the balance.

For the reasons I've given above, I intend to uphold Miss H's complaint and direct Aqua to settle as follows:

- Refund all interest and charges applied to Miss H's account above the £450 credit limit and rework credit card account. Any refund due, should be applied to reduce the outstanding balance*
- Reduce Miss H's credit limit to £450 and remove any adverse credit information from her credit file relating to balances over this amount*
- Any remaining balance above £450 should be administered as a separate account and Miss H should be allowed to repay it without incurring any further interest or charges. Information about any balance over £450 should not be reported to the credit reference agencies*

I asked Miss H and Aqua to respond with any additional comments or information they wanted me to consider before I made my final decision. Miss H also asked for a figure to confirm the interest refund she will receive if she accepts the decision.

Miss H responded and said that as Aqua lent irresponsibly it should write off the balance above £450. Aqua came back to us and said there are difficulties putting the settlement I set out in my decision in place. Aqua said it would normally consider a repayment plan before offering an interest free arrangement.

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.

I'm sorry to disappoint Miss H but I haven't been persuaded to tell Aqua to write off the outstanding balance about £450. Whilst I agree Aqua lent irresponsibly, I've reviewed the credit card statements and can see Miss H had the benefit of the funds spent. So I think it's fair that Miss H repays the balance. But, as I said in my provisional decision, I don't agree that Aqua should continue to apply interest to the part of her credit card debt that it shouldn't have approved.

Aqua confirmed the interest refund figure it will make if Miss H accepts and this information has been passed to her. Aqua also says there are some processing issues concerning how to administer part of Miss H's debt on an interest free basis going forward. Whilst I understand the settlement in this case may not be in line with Aqua's normal processing arrangements for its credit cards, it will need to work out a way forward to ensure no interest is applied to Miss H's credit card debt above £450 if she accepts. If Aqua can't administer part of the credit card debt on an interest free basis, it has the option of administering the entire account in that way. I'm not telling it to do that, but if the settlement isn't immediately compatible with the way it works, Aqua will need to put something in place that is at least as comprehensive as the settlement I've set out.

In much the same way, I'm going to tell Aqua to amend Miss H's credit file to remove any information it reports to the credit reference agencies on balances over £450. If Aqua doesn't have a mechanism in place to do that, it would be better to remove its entry from Miss H's credit file altogether.

I still think the settlement I set out in my provisional decision is the fairest way to resolve Miss H's complaint. As I haven't been persuaded to change the conclusions I reached in my provisional decision, I'm going to proceed in line with the settlement I reached.

My final decision

My final decision is that I uphold this complaint and direct NewDay Ltd trading as Aqua to settle as follows:

- Refund all interest and charges applied to Miss H's account above the £450 credit limit and rework credit card account. Any refund due, should be applied to reduce the outstanding balance
- Reduce Miss H's credit limit to £450 and remove any adverse credit information from her credit file relating to balances over this amount
- Any remaining balance above £450 should be administered as a separate account and Miss H should be allowed to repay it without incurring any further interest or charges. Information about any balance over £450 should not be reported to the credit reference agencies

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 16 June 2021.

Marco Manente
Ombudsman