

The complaint

Miss M complains that NewDay Ltd trading as Aqua lent irresponsibly when it increased the credit limit of her credit card.

What happened

Miss M applied for a credit card with Aqua in January 2015. In her application, Miss M said she was employed and earned £10,000. Miss M has told us she was a full time student with a part time job when her application was made. Aqua looked at Miss M's credit file and application information and decided to proceed. A credit limit of £300 was approved.

In September 2015 Aqua increased Miss M's credit limit to £1,000. Further increases to £2,000 in January 2016 and £3,250 in May 2016 followed.

Miss M has told us she was struggling with her finances throughout the period and Aqua's decisions to increase her credit limit caused further difficulties. Miss M's account fell into arrears and was closed in January 2019. Aqua sold the debt to a third party and it a default was registered in December 2019. Miss M has told us she has since repaid the outstanding balance to the business that bought the credit card debt from Aqua.

Miss M complained that Aqua had lent irresponsibly but it didn't agree and said it had carried out the relevant checks before deciding to proceed. Miss M referred her complaint to this service and it was passed to an investigator. The investigator thought Aqua's decision to approve the credit card and increase the credit limit to £1,000 was reasonable based on what it knew about Miss M. But the investigator thought Aqua had lent irresponsibly when it approved further credit limit increases up to £3,250.

Aqua asked to appeal and said the credit limit increases were all made in line with its lending criteria. As Aqua asked to appeal, Miss M's complaint has been passed to me to make a 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.

Before a lender agrees to lend, we would normally expect to see evidence that it had carried out reasonable and proportionate checks to satisfy itself that repayments are sustainable for the borrower. There's no set list of checks a lender has to take into account. But lenders may decide to carry out more comprehensive checks when taking into account factors like a borrower's income, the level of repayments required, the length of the term and other credit they have outstanding.

In this case, Aqua asked Miss M about her employment and income when she applied and was told she earned £10,000 a year. Aqua also carried out a credit search and didn't find any arrears or a high level of outstanding credit. Aqua says it then applied its lending criteria

and approved a credit limit of £300. In my view, Aqua completed proportionate checks when it approved Miss M's credit card.

Around nine months later, Aqua increased Miss M's credit limit to £1,000. I appreciate that's not a substantial amount on the face of it, but I think it's reasonable to note the new credit limit was more than three times the old one. I note that in the month before the credit limit was increased Miss M incurred a late payment fee and that she incurred another late payment fee in September 2015, the same month her credit limit increased. That being said, Miss M had previously managed her account within the agreed limits and the credit limit was still reasonably low when compared with her income.

Aqua says it again reviewed Miss M's account use, information recorded in her application and credit file and took the decision to increase the credit limit. I'm satisfied Aqua did complete proportionate checks and that its decision to increase the credit limit to £1,000 was reasonable based on what it knew about Miss M.

Like the investigator, I have concerns about the decision to increase Miss M's credit limit to £2,000. This increase came four months after Aqua had increased Miss M's credit limit from £300 to £1000. As I've said above, Miss M missed her first payment at the increased credit limit of £1,000. And looking at the credit file data Aqua had at hand, I can see Miss M had arrears information reported in two of the three months preceding the increase to £2,000. I also think Aqua should've considered the fact that in the space of one year it increased Miss M's credit limit from £300 to £2,000. That's a substantial increase.

I also think it's reasonable to note Miss M's declared income was reasonably low which meant she had less flexibility if something went wrong. Taking all the available information into account, I think Aqua should've carried out more comprehensive checks before decision to increase Miss M's credit limit.

I've considered what Aqua would've found if it had carried out better checks. It could've asked for various pieces of information, like bank statements, evidence of Miss M's income and outgoings or a full credit search. Miss M has sent us a copy of her credit file and I can see new credit commitments including a mobile phone financing arrangement, hire purchase, personal loan and catalogue account showing. Had Aqua asked for a full copy of Miss M's credit file or her bank statements I think they would've seen she was increasingly reliant on credit and borrowing more.

Had Aqua carried out more comprehensive checks, I don't think it would've agreed to approve the credit limit increase from £1,000 to £2,000. I agree with the investigator that Aqua lent irresponsibly in this case.

The investigator has provided a detailed analysis of why they feel the decision to increase Miss M's credit limit further to £3,250 was irresponsible. I broadly agree with everything they've said. And it follows that if I think it was irresponsible to increase Miss M's credit limit to £2,000 I agree that further increases without additional checks shouldn't have been approved either.

I've looked at the affordability data Aqua has supplied and can see that in the four months before it increased the credit limit to £3,250 Miss M incurred three late payment fees. Miss M also had a missed payment recorded by another lender on her credit file. In line with the previous credit limit increase, I think Aqua needed to ensure it was carrying out proportionate checks to ensure repayments were sustainable for Miss M. For the same reasons, I think Aqua would've decided not to increase Miss M's credit limit as it would've found she was unable to maintain repayments in the long term.

Ultimately, Miss M wasn't able to maintain her payments and the credit card was closed, sold and defaulted. That has a lasting impact on Miss M as the default will remain on her credit file for six years. As I agree Aqua lent irresponsibly, I don't think it's fair for adverse information like arrears and the default to be reported after the credit limit above £1,000 was approved. So I'm going to tell Aqua to amend Miss M's credit file.

Miss M's account was sold to a third party and subsequently defaulted. Aqua will need to liaise with the third party to ensure adverse information, including the default, is removed from Miss M's credit file. Aqua may need to consider the options available to ensure the settlement is put in place, including whether to purchase the debt back from the third party.

Aqua recently told our investigator that it didn't think the requirement for it to pay 8% interest on the refunds is right because Miss M hasn't suffered a financial loss. I disagree, Miss M has lost out financially because she paid interest against sums that were lent irresponsibly. So I'm telling Aqua to refund the interest payments Miss M made above £1,000 and apply 8% interest from the date of each payment to the date of settlement to reflect that.

As I think Aqua lent irresponsibly when it increased the credit limit above £1,000 I think the fairest approach is for it to refund all interest and charges on balances exceeding that amount to Miss M. Miss M has repaid the outstanding balance, the refund should be paid to her directly and interest applied.

My final decision

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

- Refund all interest and charges applied from January 2016 onwards against balance over £1,000 and add 8% interest from the date of each payment Miss M made to the date of settlement
- Take the necessary steps to amend Miss M's credit file and remove all adverse information recorded from January 2016 to date

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 August 2021.

Marco Manente
Ombudsman