

The complaint

Miss F complained because NewDay Ltd, trading as Aqua, increased her credit limit. She said NewDay didn't check she could afford to pay it back.

Miss F wants NewDay to refund all interest charged on her card, and to remove all negative information from her credit file.

What happened

In February 2018, Miss F applied for a NewDay credit card, because she wanted to improve her credit score. She told NewDay that she was employed and earned £17,000 a year and had an unsecured debt of £1,000. NewDay checked that she had no defaults, no adverse public records, no pay day loans, and no accounts in arrears. So it opened a new account for Miss F with a credit limit of £250.

NewDay increased Miss F's credit limit four times:

- In July 2018, from £250 to £800
- In December 2018, from £800 to £2,300
- In April 2019, from £2,300 to £3,300 and
- In October 2019, from £3,300 to £3,700.

Before each increase, NewDay sent Miss F a letter giving her 40 days' notice that it planned to increase her limit. The letters all gave her the option of not increasing the limit. They included this wording, or similar wording:

"Make sure you can afford it

We always try to make sure we're lending responsibly. So before you decide what to do, it's important to carefully consider whether you need, or can afford, a higher limit. A higher limit may offer greater flexibility and convenience but it can also increase the risk of taking on too much debt, which may be costly, or take a long time to pay off."

In June 2020, Miss F asked for a credit limit increase to £4,500, but NewDay refused. In July 2020, she asked for a credit limit increase to £4,000, but NewDay refused that too.

On 26 August 2020, Miss F contacted NewDay to say she was in financial difficulties. She was working fewer hours because of the Covid pandemic. NewDay set up a three month payment holiday, which it later extended.

In February 2021, Miss F complained to NewDay. She said that *"you just carried on increasing my limit without ever asking me just like a gift."* Miss F said NewDay hadn't checked she could afford to pay back the money and *"probably all you could see is that I am responsible and always pay back my debt."* She also said that her only income was around £1,300 a month, and she had a bank loan for £5,000 and a large overdraft, which she was trying to balance with regular outgoings. She said she'd just been scraping by when NewDay kept giving her more money she couldn't afford to spend. Miss F said she had constant anxiety and was worried about paying her bills and being able to afford food.

NewDay didn't uphold Miss F's complaint. It said that every time there had been an increase, NewDay had given her the chance to refuse them. And it said that every time it had offered an increase, it had checked:

- whether Miss F had exceeded her current limit
- whether there were late or missed payments
- what payments Miss F had made
- the proportion of the credit limit she'd used
- how she used the credit limit
- management of any other NewDay accounts
- any internal and external repayment plans
- any Pay Day loan history
- arrears status of external accounts
- overall external credit which Miss F had accessed to and used.

NewDay said that based on these factors, it had offered the credit limit increases correctly. It also said that when Miss F told them about financial difficulties in August 2020, it had set up a payment holiday. It pointed out that Miss F hadn't previously told them about any impact on her mental health, and said it had a specialist team which could have provided support if she'd asked. NewDay said that in the light of Miss F's comments, it had closed her account for more spending, but she'd need to carry on making payments by the due date each month to pay off the balance. It said its customer care team would be in touch, and provided details of charities which could help with budgeting and a way of repaying credit.

Miss F wasn't satisfied and complained to this service. She said that NewDay had assumed that because she hadn't failed to make any payments, she wasn't in difficulties. She didn't think NewDay had carried out any credit checks before the increases. She said her income was about £1,330 a month, and she'd borrowed money to pay her credit card, and she now had a bank loan for £5,000, a £3,000 overdraft, and another loan for £6,000. Miss F said she did take responsibility and shouldn't have applied for the credit card in the first place. The Covid pandemic hadn't helped because she was working fewer hours, and had constant anxiety about her debts.

Miss F asked for all interest to be refunded, and any negative information to be removed from her credit file.

Our investigator didn't uphold Miss F's complaint. She said that NewDay had obtained detailed information from the credit reference agencies before each increase. And Miss F's statements didn't show any evidence that she was struggling financially – her account was being managed very well. The credit reference information showed that Miss F's overall indebtedness increased significantly from around December 2019 – but that was after the final credit limit increase.

Miss F was still unhappy. She said that she'd had to borrow money to pay off part of her debt to NewDay. She felt it was unfair to say that the fact she was paying each month meant she wasn't struggling financially. Miss F said that paying by credit card was, for her, the definition of financial difficulty. She believed that NewDay should have asked her for details of her income and outgoings. Miss F also said that she'd applied to NewDay for a loan, before she applied for the loan she took out in December 2019 – and NewDay had refused her, but had kept increasing her credit limit on her credit card. Miss F said she's suffered sleepless nights and anxiety, worrying about what would happen if she didn't make payments, and how to buy food and everyday essentials.

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 hear that Miss F is so worried about her financial situation. I hope she'll feel able to contact one of the debt charities which are listed in NewDay's final response letter, as well as NewDay's own customer help team. Debt charities can work with people to go through a budget, and work out a way of dealing with debt. I hope this will help Miss F, but my job is just to look at whether NewDay acted unfairly towards Miss F when it offered her the four credit increases on her card.

There isn't a set list of checks which a lender has to carry out, but the rules and guidance say that checks have to be reasonable and proportionate. The Financial Conduct Authority (FCA), which regulates consumer credit, sets out that lenders should carry out reasonable and proportionate checks before agreeing any lending.

I've looked at what NewDay's records show it looked at, when it offered Miss F the credit limit increases between July 2018 and October 2019. NewDay's spreadsheet shows a number of elements which it considered. Miss F's NewDay payment history showed that she made payments on time, and usually paid significantly more than the minimum payment. There were also no missed payments, defaults or arrangements to pay, recorded anywhere on her file. There were no pay day loans. The large loans to which Miss F refers were taken out in December 2019, after NewDay's four credit limit increases.

I see that Miss F says she applied to NewDay before taking out the large December 2019 loan, and it refused. It also refused her requests for more credit in summer 2020. I think these refusals also indicate that NewDay's processes did involve checks and it didn't just accept all requests for increased lending.

Miss F believes NewDay should have checked her income at the time of the credit limit increases. I understand why she feels this, and a lender takes a risk if it doesn't check a customer's income. But here, none of the data, from Miss F's NewDay account, or her other financial data, indicated any problem with affordability between July 2018 and October 2019.

Taking into account the fact that there was no adverse data on Miss F's credit file when NewDay checked it, and she'd been managing her account well with no missed payments, I find that between July 2018 and October 2019 there was no reason for NewDay to be concerned that Miss F would find the new limits unaffordable or unsustainable.

I've also seen copies of the letters which were sent to Miss F before each credit limit increase was set up. These do give her the option of turning down the increase – together with a warning to take care before taking on a higher limit. So I can't say that NewDay should have known, between July 2018 and October 2019, that Miss F would find the increases unaffordable. The data shows that it was only after that, that Miss F began to have financial difficulties.

So I don't require NewDay to refund all interest charged under the terms and conditions of the account. And credit file data has to be reported accurately, so I don't require NewDay to remove any adverse credit information.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or

reject my decision before 10 November 2021.

Belinda Knight
Ombudsman