

The complaint

Miss B is unhappy that NewDay Ltd, trading as Aqua, approved her for credit that wasn't affordable for her at that time and later increased the limit on her credit account which also wasn't affordable for her at that time.

What happened

Miss B applied for a NewDay administered credit card account in November 2015. Miss B's application was approved, and she was issued with a credit card with an initial credit limit of £250. Three months later, in February 2016, NewDay increased the credit limit on Miss B's account to £1,250. NewDay then increased the credit limit again, to £2,450, in September 2016. Miss B cleared the full outstanding balance and closed her account in March 2019.

In December 2019, Miss B applied for a second NewDay administered credit card account. This application was also approved, and Miss B was issued with a new credit card with an initial credit limit of £250. In April 2020, Miss B informed NewDay that she was experiencing financial difficulties, and her account subsequently fell into arrears.

In February 2020, Miss B raised a complaint with NewDay on the basis that she felt that NewDay approving her for credit, and later increasing her credit limit, had been unaffordable for her at those times.

NewDay looked at Miss B's complaint. But they noted that they'd conducted checks into Miss B's financial position before approving her for credit and before increasing the credit limit on her account, and that there had been nothing resulting from these checks that they felt should have given them cause to suspect that Miss B might not be able to afford the credit being offered to her at those times. So, they didn't uphold Miss B's complaint.

Miss B wasn't satisfied with NewDay's response, so she referred her complaint to this service. One of our investigators looked at this complaint. They felt that while NewDay didn't act unreasonably in providing the initial credit account to Miss B in 2015, Miss B's circumstances – including that she wasn't employed – meant that NewDay should have undertaken more borrower focussed checks into Miss B's financial position before considering any credit limit increases on Miss B's account. Additionally, our investigator felt that had NewDay undertaken further checks, it should have been apparent to NewDay that Miss B wouldn't be able to afford any credit limit increases at that time.

Our investigator also felt that this same rationale applied to NewDay's approval of the second credit card account, which our investigator felt also shouldn't have been approved by NewDay. So, our investigator recommended that this complaint be upheld in Miss B'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.

I issued a provisional decision on this complaint on 2 September 2021 as follows:

It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be that, before approving a customer for a new line of credit, or for a credit limit increase on an existing line of credit, that the business would undertake reasonable and proportionate borrower focussed checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay say that that they did that here. When Miss C applied for credit in both 2015 and 2019, they obtained information from Miss C about her income to confirm that she could afford to make any monthly account repayments that might become due. Additionally, NewDay also obtained information about Miss B from a credit reference agency in order to gain a better understanding of Miss B's wider financial position, and NewDay state that there was nothing resulting from any of these checks that gave NewDay any reason to suspect that Miss B might not be able to afford the lines of credit she was applying for at those times.

Furthermore, NewDay also explain that before increasing the credit limit on Miss B's account, they reviewed how Miss B had managed her NewDay credit account up to that time to ensure that there were no indications that Miss B might be struggling financially. NewDay also obtained further information from a credit reference agency to update their understanding of Miss B's wider financial position, and again NewDay contend that there was nothing resulting from these checks that should have made them consider that Miss B might not be able to afford the credit limit increases being provided to her.

I can appreciate NewDay's position here, and while I'm satisfied that the initial approval of Miss B's account application in 2015 was reasonable – given the information provided to NewDay by Miss B at that time and the relatively low initial credit limit of £250 - I'm not convinced that the checks that NewDay undertook into Miss B's financial position at the time of the credit limit increases were reasonable or proportionate, or borrower focussed.

I say this because at the time of the account application Miss B had informed NewDay that she was a homemaker with an annual income of £17,000. In effect, this meant that Miss B was unemployed with a high likelihood that her annual income was received in the form of benefits – which Miss B herself has subsequently confirmed.

As such, while I consider it reasonable that NewDay would approve Miss B for a credit account with a low credit limit of £250, I struggle to understand why NewDay subsequently increased the credit limit on Miss B's account to first £1,250, and then to £2,400 – almost ten times the initial credit limit of £250 – within ten months of Miss B opening the account.

My concerns here are only exacerbated by the fact that NewDay, despite being informed of Miss B's status of a homemaker, didn't contact Miss B to ask her directly about her financial situation at that time – which would be expected by this service given that Miss B had made NewDay aware that she wasn't in full time employment.

It's also notable that NewDay elected to increase the credit limit on Miss B's account by a factor of five – from £250 to £1,250 – after only three months of Miss B opening the account. Which again, given Miss B's employment status, seems somewhat rash, and didn't, in my opinion, give due regard or care to Miss B's stated circumstances at that time.

Furthermore, had NewDay contacted Miss B and confirmed with her that she remained unemployed, I can only conclude that the only reasonable decision that NewDay should have made was that it wouldn't be appropriate to increase the credit limit on Miss B's account at that time, as this would risk drawing an unemployed customer into greater levels of debt.

For these reasons, I don't feel that NewDay should have offered either of the credit limit increases to Miss B that they did, and so I will be provisionally upholding this aspect of Miss B's complaint.

Miss B repaid and closed her first NewDay account in March 2019, and in December 2019 she applied for a second NewDay administered account. Our investigator felt, given that NewDay should have been more aware of Miss B's earlier financial position, that they also shouldn't have approved this later credit account application.

I can appreciate our investigator's position here, but I'm satisfied that by clearing and closing the previous account, and given the length of time that had elapsed since then to when Miss B applied for the second credit account, that it was reasonable for NewDay to consider Miss B's application from a 'clean slate' perspective.

And, given that NewDay approved Miss B's later application and issued her with a credit card with the same relatively low credit limit of £250 as had been issued on Miss B's earlier account, I don't feel that it was unreasonable or unfair for NewDay to have done this.

It also must be noted that, while Miss B did confirm at the time of the second application that she was still a homemaker, she also confirmed that her annual income had risen from £17,000 to £24,000, which I feel further confirms that NewDay were justified in approving Miss B for that later credit account with the same credit limit as she was approved for in the first instance. As such, I will not be provisionally upholding this aspect of Miss B's complaint.

All of which means that my provisional decision will be that I uphold this complaint against NewDay on the basis that I feel that it wasn't fair or reasonable for them to have increased the credit limit on Miss B's first credit account beyond the initial credit limit of £250 at which the account was first approved.

My provisional instructions are therefore that NewDay must reimburse all interest, fee, and charges incurred or accrued on that account for any balance above £250 from the point of the first credit limit increase onwards.

If these reimbursements result in a credit balance in Miss B's favour, NewDay must pay that credit balance to Miss B along with 8% simple interest.

NewDay must also remove any adverse credit reporting from Miss B's credit file in relation to this account from the time of the first credit limit increase onwards.

In my provisional decision letter, I gave both Miss B and NewDay the opportunity to provide any comments or further information they might wish me to consider before I moved to a final decision.

Miss B confirmed that she was happy to accept the provisional decision and had no further comments to make. However, NewDay did provide some further comments, essentially reiterating their position as to why they felt that the credit limit increases that they'd implemented on the first account shouldn't be considered as being unfair or unreasonable.

I can appreciate NewDay's position here, but they haven't provided any new information that I haven't already considered when arriving at my provisional decision. Furthermore, it remains my position that NewDay's increasing the credit limit on Miss B's first account from £250 to £1,250 and then to £2,400 – increases which I do consider to be significant - without first contacting Miss B to discuss these potential increases with her, at times when NewDay had been made aware that Miss B wasn't in employment, aren't indicative of the kind of borrower focussed checks that this service would expect here.

As such, I see no reason not to issue my final decision on the same basis as that outlined in my provisional decision, and I can confirm that my final decision will be that I uphold this complaint against NewDay on that basis.

Putting things right

NewDay must reimburse all interest, fees, and charges incurred or accrued on Miss B's first NewDay account for any balance above £250 from the point of the first credit limit increase onwards.

If these reimbursements result in a credit balance in Miss B's favour, NewDay must pay that credit balance to Miss B along with 8% simple interest calculated until the date of the payment by NewDay to Miss B.

NewDay must also remove any adverse credit reporting from Miss B's credit file in relation to the first account from the time of the first credit limit increase onwards.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 1 November 2021.

Paul Cooper
Ombudsman