

The complaint

Miss G complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved her credit card application and later increased the credit limit.

What happened

Miss G applied for a credit card with Aqua in April 2020. In her application, Miss G said she was a tenant, homemaker and had an income of £9,000 a year. Miss G also said there was other household income of £12,000. Aqua carried out a credit search and found Miss G had two defaults on her credit file that were about two and a half years old. Aqua's application data says it used a figure of £800 for her other credit. Aqua approved a credit card with a £250 limit.

In January 2021 Aqua increased Miss G's credit limit to £1,000. Aqua says the increase took Miss G's account history, application data and credit file into account and was approved in line with its lending criteria.

Miss G complained that Aqua had lent irresponsibly when it approved her credit card. Aqua didn't agree and didn't uphold Miss G's complaint. Miss G referred her case to this service and it was passed to an investigator. They upheld the complaint as they thought the decision to increase Miss G's credit limit was irresponsible. Aqua asked to appeal so Miss G'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 agreeing to lend, the rules say Aqua needed to complete reasonable and proportionate checks to ensure Miss G could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total repayable and the size of regular repayments;
- The duration of the agreement
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete but lenders are required to consider the above points when considering what's reasonable and proportionate.

In this case, Aqua says it took Miss G's credit file and personal circumstances into account when it approved her credit card. Aqua also says the £250 credit limit was modest and that it completed proportionate and reasonable checks before approving the application. Aqua's application data said Miss G only owed £800 elsewhere and I agree that, the checks Aqua

completed were proportionate to the credit card it went on to approve. I haven't found that Aqua lent irresponsibly when it approved Miss G's application.

Aqua increased the credit limit to £1,000 in January 2021. In the original application data Aqua sent us it says Miss G had £800 of unsecured debt with other lenders. But by the time Aqua increased the credit limit in January 2021 its credit file data shows she had unsecured debt of around £5,000, an increase of £4,200 in 10 months. I think an increase in unsecured debt of that nature should've caused Aqua to think carefully before putting Miss G's credit limit up. I also note that Miss G's balance exceeded the credit limit in October 2020. I don't agree with Aqua that the checks it completed when the credit card was approved remained proportionate when it increased the credit limit. I think Aqua should've done more.

There's a range of information Aqua could've looked at like bank statements or evidence of Miss G's income and outgoings, for example. If Aqua had carried out more comprehensive checks I think it would've found Miss G was increasingly reliant on credit and unable to sustainably repay an increased credit card balance. I agree with the investigator that Aqua lent irresponsibly when it increased Miss G's credit limit to £1,000.

As I think Aqua lent irresponsibly, I'm going to tell it to refund all interest, fees and charges applied to credit card from January 2021. Going forward, Aqua shouldn't apply interest above £250. I also don't agree it's fair for Aqua to report adverse information about a debt that was lent irresponsibly, so I'm also going to tell it to amend Miss G's credit file.

The investigator recommended Aqua pay Miss G £50 for the distress and inconvenience caused to Miss G. I've seen evidence Miss G suffers with health conditions that the additional stress of irresponsible lending most likely impacted. In Miss G's case, I agree £50 for the trouble and upset caused to her is fair.

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 to balances over £250 from January 2021
- Going forward, Aqua should only charge interest on balances up to £250
- Cease reporting all adverse information on Miss G's credit file in relation to balances over £250
- Pay Miss G £50 for the distress and inconvenience caused

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 24 December 2021.

Marco Manente
Ombudsman