

The complaint

Miss S is unhappy that NewDay Ltd, trading as Aqua, provided credit to her which she feels was unaffordable for her.

What happened

In March 2017, Miss S applied for a credit account with NewDay. Her application was accepted, and NewDay issued Miss S with a credit account with an initial credit limit of £900.

In November 2017, NewDay increased the credit limit on Miss S's account to £1,900. Further credit limit increases followed in January, April, and September 2019, to £2,800, £4,400, and £5,450 respectively.

In 2021, Miss S raised a complaint with NewDay because she felt that credit the NewDay had given her hadn't been affordable for her, and that NewDay should have recognised this, had they undertaken checks into her financial position before offering the credit to her.

NewDay looked at Miss S's complaint. They noted that they had undertaken checks into Miss S's financial position before offering credit to her, and they felt that there hadn't been anything resulting from these checks which should have given them any reasonable cause to suspect that Miss S might not be able to afford the credit being offered to her. So, NewDay didn't uphold Miss S's complaint.

Miss S 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 the information that NewDay had obtained from Miss S at the time of the credit account application in November 2017 was such that NewDay shouldn't have approved Miss S's application at that time. Because of this, our investigator recommended that this complaint be upheld in Miss S's favour on that basis.

NewDay didn't agree with the recommendation put forwards 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.

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 before increasing the amount of credit available to a customer on an existing line of credit, 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 feel that they did that here. At the time of the credit account application in 2017 they took details from Miss S of her income and level of existing indebtedness to check that she

would in all likelihood be reasonably able to afford the monthly repayments that might become due on the account as well as obtained information about Miss S from a credit reference agency in order to get a better understanding of Miss S's wider financial position. And NewDay contend that there was nothing resulting from these checks which they feel should have given them cause to suspect that Miss S might not be able to afford the new credit account she was applying for.

However, it's notable from the information that NewDay gathered from Miss S that she declared that she was housewife/homemaker with an annual income of £4,200. Additionally, Miss S also declared at that time that she had existing unsecured debt totalling £10,100.

This means that at the time of the account application, Miss S's level of already existing debt was approximately two and a half times her annual income. And, given that Miss S's personal annual income was relatively low, at only £4,200, it's unclear how much of that annual income was disposable – meaning that it's difficult not to conclude that Miss S would have most likely struggled to repay her existing debt, before the NewDay application, in anything less than a timeframe of several years.

This level of existing debt doesn't seem sustainable to me, and consequently it doesn't seem fair or reasonable that NewDay would provide any new credit to Miss S at that time, which would potentially facilitate Miss S falling even further into what I'm satisfied was already an unsustainable level of debt.

NewDay may contend that as part of the application process Miss S indicated that another member of her household had income of £15,000, which NewDay took into account when assessing the affordability of Miss S and which meant that the provision of a further £900 credit to Miss S wasn't done so irresponsibly.

But Miss S was applying for a credit account in her name solely, and so it's difficult to understand why the income of another household member (presumably a spouse or partner) would be taken into account, especially when it's considered that there's no ongoing guarantee that the other household member in question would consent to their income being used to repay Miss S's own credit commitments, or that the other household member would remain in such a relationship with Miss S moving forwards.

Even discarding these important points, it doesn't appear that NewDay undertook any checks into the financial situation of the other household member to determine that person's level of existing debt and existing credit commitments so as to ascertain whether any portion of the £15,000 annual income of the other household member as declared by Miss S was realistically disposable or available for Miss S's potential credit repayments.

Additionally, it also appears that NewDay didn't obtain accurate information about Miss S from the credit reference agency before approving Miss S's application and issuing the credit account to her. I say this because the affordability assessment information that NewDay have provided to this service lists Miss S's existing credit debt balance and number of existing payday loans as both being zero at the point of application, only to increase to £10,200 and ten respectively the following month.

Given that Miss S had declared to NewDay that her existing level of debt as being £10,100, and has confirmed to this service that she was using a large number of payday loans at that time, I feel that it's more likely than not, on balance, that Miss S had such a level of outstanding existing debt and existing payday loans at that time of the account application, but that this wasn't assessed by NewDay because they didn't obtain accurate information at that time. And this scenario seems considerably more plausible to me than the alternative,

which was that Miss S acquired over £10,000 of debt and opened ten payday loans in the month immediately after the opening of the NewDay account.

Furthermore, had NewDay's assessment of Miss S's application included that Miss S had ten existing payday loans, as I'm satisfied that it should have done, it's very difficult to conclude that NewDay should then have reasonably approved Miss S's credit account application, and this is even if NewDay assessed Miss S's available annual income to include the £15,000 other household member's income as they did but which as explained I feel they shouldn't have done.

All of which means I'm satisfied that the information that NewDay both gathered and should have gathered about Miss S at the point of the account application was such that NewDay shouldn't have reasonably provided any further credit to Miss S at that time. And it follows from this that I don't feel that NewDay provided this credit to Miss S fairly or responsibly and that I will be upholding this complaint in Miss S's favour on that basis as a result.

Putting things right

NewDay must reimburse to Miss S's account all interest, fees, and charges, incurred or accrued on the account from the point of account opening in March 2017.

If these reimbursements result in a credit balance in Miss S's favour, this balance must be paid to Miss S along with 8% simple interest calculated to the date of payment.

If after the reimbursements a balance remains outstanding on the account for Miss S to pay, NewDay must arrange an affordable, interest free repayment plan on that balance with Miss S.

Finally, NewDay must remove any and all adverse reporting relating to this account from Miss S's credit file.

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 S to accept or reject my decision before 10 May 2022.

Paul Cooper
Ombudsman