

## **The complaint**

Mr M is unhappy that NewDay Ltd, trading as Aqua, provided him with new and further credit which he feels was unaffordable for him at those times.

## **What happened**

In June 2016, Mr M applied for a NewDay administered credit account. Mr M's application was approved, and NewDay opened a new credit account for Mr M with an initial credit limit of £900.

In September 2016, NewDay increased the credit limit on Mr M's account to £1,900. Further credit limit increases followed in February 2017 and March 2019, to £2,500 and £4,500 respectively.

In July 2021, Mr M raised a complaint with NewDay because he felt that both the initial provision of credit and the later credit limit increases hadn't been affordable for him at those times, and that NewDay should have been aware of that, had they undertaken checks into his financial position before providing him with that credit.

NewDay looked at Mr M's complaint. They confirmed that they had undertaken checks into his financial position before providing him with credit, and they felt that they'd been nothing resulting from those checks that should have given them reasonable cause to suspect that Mr M might not be able to afford the credit he was being offered. So, NewDay didn't uphold Mr M's complaint.

Mr M wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that it should have been apparent from the information that NewDay had assessed when Mr M had first applied for the credit account in June 2016, that Mr M wouldn't in all likelihood have been able to afford any further credit at that time, and so they recommended that this complaint be upheld in Mr M's favour accordingly.

NewDay didn't agree with the recommendations put forwards by our investigator, and 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 checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay believe that they did that here, and note that at the time of the application they took information from Mr M directly about his employment status and annual income, as well as obtained information from a credit reference agency so as to get a better understanding of Mr M's wider financial position. And NewDay contend that there was nothing resulting from that information that they feel should have given them any reasonable cause to believe that Mr M might not be able to afford the credit he was subsequently approved for.

It's notable that when Mr M applied for the credit account in June 2016, he told NewDay that he was employed with a gross annual income of £23,800. NewDay also learned that Mr M had existing total unsecured borrowing of £17,700 at that time, which equated to approximately 74% of Mr M's gross annual income at that time. Following the opening of the NewDay account and the provision of £900 new credit to Mr M, this ratio rose to over 78%

This is a high percentage of existing debt to income, and as such it's difficult to understand why NewDay classified Mr M at the point of application as being of low indebtedness. And while Mr M's credit file appeared to demonstrate that he was managing to maintain his credit commitments at that time – given that there was no record of Mr M being in arrears on any of his other existing credit commitments – I feel that this high debt to income ratio should have given NewDay causes to suspect that Mr M might not be able to reasonably afford the provision of any further credit at that time.

At the very least, I feel that the information that NewDay gathered about Mr M's amount of existing debt should have prompted NewDay to conduct more detailed checks into whether Mr M would reasonably be able to afford any further credit before providing it to him. And I feel that these additional checks should, in all likelihood, have included the review of Mr M's current account statements for the months leading up to the credit account application.

Accordingly, I've asked Mr M to provide his current account statements for these months, and having reviewed these I feel that had NewDay reviewed these as a part of their further checks, that it should have been apparent that Mr M wouldn't in all likelihood be able to afford any further credit at that time.

This is because it's evident from Mr M's statements that his net income at that time, while regular, was of variable amounts, and that Mr M was making regular payments to an existing loan and other credit commitments that took up a large portion of his net income. It's also notable that Mr M's current account balance was regularly and consistently overdrawn, and that following income payments quickly became overdrawn again.

As such, while it may have been the case that Mr M hadn't fallen into any arrears on his existing credit commitments at the time of the credit account application, I'm satisfied from the information that NewDay did and reasonably should have gathered that Mr M's financial position was delicately poised, such that the provision of further credit to him at that time carried a notable risk of placing Mr M into an unsustainable financial position.

I note that after the opening of the new credit account, Mr M took £800 of the available £900 credit limit as a cash withdrawal and incurred a charge on the credit account because of this. Given the expensive nature of such cash withdrawals from credit accounts, I feel that this likely confirms that Mr M was struggling to maintain the integrity of his finances.

Finally, it's notable that when NewDay chose to increase the credit limit on Mr M's account a few months later in September 2016, that they recorded Mr M's total amount of existing debt to have increased to approximately £20,500 – an increase of close to £3,000 in just three months – which I consider to be further confirmation of Mr M's deteriorating financial position at that time.

All of which means that I don't feel that NewDay acted fairly towards Mr M by approving him for the new credit account following Mr M's application for that account in June 2016, and it follows from this that I'll be upholding this complaint in Mr M's favour accordingly.

### **Putting things right**

NewDay must reimburse to Mr M's account all interest, fees, and charges incurred or accrued on the account since its inception.

If these reimbursements result in an account balance in Mr M's favour, this balance must be paid to Mr M along with 8% simple interest calculated to the date of payment.

NewDay must also remove all adverse credit reporting relating to this account from the point of account opening 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 Mr M to accept or reject my decision before 1 August 2022.

Paul Cooper  
**Ombudsman**