

The complaint

Ms O is unhappy that NewDay Ltd, trading as Aqua, approved her for credit which she feels wasn't affordable for her at that time.

What happened

In September 2020, NewDay approved an application made by Ms O for a new line of credit and issued her with a credit card account with a credit limit of £600.

In June 2021, Ms O raised a complaint with NewDay because she felt she hadn't been able to afford the credit she'd been provided by NewDay in 2020, and that this should have been apparent to NewDay, had they undertaken checks into her financial position before approving her for that credit.

NewDay looked at Ms O's complaint. They confirmed that they had undertaken checks into her financial position before approving her credit application, and felt there'd been nothing resulting from those checks that should have reasonably given them cause to suspect that Ms O might not be able to afford that credit at that time.

Ms O 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 it should have been apparent to NewDay, from the information they gathered about Ms O at the point of application, that Ms O wouldn't in all likelihood be able to afford the credit she was applying for, such that it shouldn't have been provided to her. So, they recommended that this complaint be upheld in Ms O's favour on that basis.

NewDay didn't agree with the view of this complaint 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 believe that they did that here, and note that at the time of the application they took information from Ms O directly about her employment status and annual income, as well as obtained information about Ms O from a credit reference agency so as to get a better understanding of her wider financial position. And NewDay contend there was nothing resulting from that information that they feel should have given them any reasonable cause

to believe that Ms O might not be able to afford the credit she was subsequently approved for.

It's notable that NewDay assessed Ms O as being employed with a gross income of £19,000 per year. NewDay also assessed Ms O as having total existing unsecured debt of £19,300, as well as having an existing mortgage that she was repaying.

This means that at the point of application, NewDay understood that Ms O already had an existing unsecured debt amount that was more than her gross annual income at that time (and therefore considerably more than her net annual income).

This is a significant level of existing debt, especially in consideration of Ms O's relatively low annual income (meaning that Ms O was less likely to have had disposable income available to her after her monthly expenditure was accounted for), as well as in consideration of Ms O's need to make monthly mortgage payments and pay for essential spending such as food and energy payments.

At the very last I feel that the circumstances described above should have given NewDay cause to have undertaken more detailed checks into Ms O's financial position so as to confirm that she would be able to sustainably repay the new line of credit that she was applying for.

And had NewDay undertaken such further checks, I feel that it would have been the case that the unaffordability of the credit for Ms O would have become apparent at that time. And this is because I'm satisfied that NewDay would have seen that Ms O was already spending a very significant portion of her net monthly income on her existing financial commitments such that the provision of any further credit to her at that time wouldn't in all likelihood have been sustainably affordable for her.

It's also notable that Ms O's level of unsecured debt had been increasingly steadily over the preceding years, with Ms O taking out new credit accounts to increase her overall credit amount in 2018 (once) and 2019 (twice).

So, while it may have been the case that Ms O hadn't fallen into arrears on any of her existing credit commitments at that time, I'm satisfied that it was the case that her existing level of unsecured debt was already at a level that was in all likelihood unsustainable for her when she made the application to NewDay for a new line of credit in 2020. And I feel that this should have been apparent to NewDay from the information that they assessed about Ms O before approving that application.

All of which means that I'll be upholding this complaint in Ms O's favour and instructing NewDay to take corrective action as follows.

Putting things right

NewDay must reimburse to Ms O's account all fees, charges, and interest incurred or accrued on the account from the point of opening.

If these reimbursements result in a credit balance in Ms O's favour, NewDay must pay this balance to Ms O along with 8% simple interest calculated to the date of payment.

If, following the reimbursements instructed above, a balance remains on the account to be paid by Ms O, NewDay must contact Ms O and arrange an affordable payment plan with her, ensuring that no interest or fees are charged on the balance to be repaid. If NewDay haven't already done so, NewDay may restrict the use of the account to prevent events happening

for which charges would usually be incurred.

Finally, NewDay must remove all adverse reporting relating to this account from Ms O'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 Ms O to accept or reject my decision before 29 August 2022.

Paul Cooper
Ombudsman