DRN-3419175

The complaint

Miss P is unhappy as she feels that NewDay Ltd, trading as Aqua, provided her with credit that wasn't affordable for her.

What happened

In April 2019, Miss P applied for a NewDay credit account. Her application was approved, and NewDay issued Miss P with an account with an initial credit limit of £900. In December 2020, NewDay increased the credit limit on Miss P's account from £900 to £1,200.

In October 2021, Miss P raised a complaint with NewDay because she felt she hadn't been able to afford the new and further credit that NewDay had provided to her and that this should have been apparent to NewDay, had they undertaken checks into her financial position before providing that credit.

NewDay looked at Miss P's complaint. They confirmed that they had undertaken checks into her financial position before offering credit to her, and that there was nothing resulting from those checks which they felt should have given them cause to suspect that Miss P might not be able to afford the credit being offered to her.

Miss P 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 from the information that NewDay had assessed about Miss P that she wouldn't in all likelihood have been able to afford the credit that was subsequently offered to her, and so they recommended that the complaint be upheld in Miss P'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 Miss P about her employment and annual income, as well as obtained information about Miss P from a credit reference agency so as to get a better understanding of her 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 Miss P might not be able to afford the credit she was subsequently approved for.

When Miss P applied for the credit account in April 2019, she told NewDay she had an income of £5,520 per year, which equates to £460 per month. This is a low level of monthly income, and there's a much greater chance that a person with such a low level of monthly income may have little disposable income remaining after their monthly essential spending has been accounted for.

Additionally, NewDay also assessed Miss P as having £8,400 of existing unsecured debt. This equates to over one a half times Miss P's declared annual income, and when considered alongside the low monthly income Miss P had, it's very difficult to understand how Miss P might have paid off that level of existing debt within a reasonable period of time. Consequently, it's also very difficult to understand how NewDay would consider it responsible or sustainable to provide Miss P with even more credit at that time.

NewDay have explained that their review of Miss P's credit file didn't show that Miss P was in arrears on any of her existing credit commitments and appeared to be managing her financial position without incident. But I feel that Miss P's prohibitively high debt-to-income ratio, along with her low monthly income and her correspondingly low chance of having significant disposable income, should have given NewDay cause to conclude that the provision of further credit wasn't sustainable or affordable, or in Miss P's best interests at that time.

All of which means that I do feel that NewDay have provided credit to Miss P irresponsibly here, and it follows that I'll be upholding this complaint in Miss P's favour on that basis.

Miss P is currently in an Individual Voluntary Arrangement (IVA). For that reason, we've let the IVA supervisor know about the award – as they've said they have an interest in this complaint and would like the money paid to them, to go towards the IVA arrangement.

This service can only recommend an award to be paid directly to the eligible complainant under our rules, which will still be Miss P. It may be a breach of the IVA arrangement if Miss P doesn't declare this award to the IVA supervisor. But, if the IVA supervisor wants the money that may result from this award, they'll need to go to Miss P directly.

Putting things right

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

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

If after the reimbursements instructed above, any balance remains for Miss P to pay, NewDay must contact Miss P to arrange a suitable repayment plan with her, ensuring that no interest is applied to the outstanding balance.

Finally, NewDay must remove all adverse reporting relating to this account from Miss P'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 P to accept or reject my decision before 31 August 2022.

Paul Cooper
Ombudsman