

The complaint

Ms M complains that NewDay Ltd trading as Aqua was irresponsible in its lending to her.

What happened

Ms M says that had adequate checks been carried out NewDay would have seen that there was a county court judgement recorded on her credit file and it would have realised that providing her with a £4,000 loan and increasing her credit limit to £5,900 wasn't affordable.

NewDay issued a final response letter in May 2021. It didn't uphold Ms M's complaint. It said that Ms M applied for an Aqua Mastercard in July 2018. At that time, she declared she was retired with an annual income of £15,250. It said she had unsecured debt of £800 and her credit check showed no defaults, arrears or payday loans. There was a public record from 47 months prior with a value of £2,300 but said that Ms M met its lending criteria and was provided with the credit card with a £900 credit limit.

NewDay said it regularly reviews its accounts and that Ms M's credit limit was increased three times and on each occasion Ms M had the option to opt out of the increase:

- May 2019 - £900 to £2,150
- September 2019 - £2,150 to £4,150
- February 2020 - £4,150 to £5,900

Regarding the Aqua loan, NewDay said that to be eligible for the loan Ms M needed to have been managing her Aqua Mastercard account well as well as meeting its other criteria. Ms M was provided with a £4,000 loan in September 2019 with monthly repayments of £128. At the time, Ms M's monthly income was £1,200 and NewDay said she had disposable monthly income of £860.

Our investigator partially upheld this complaint. He didn't think that NewDay had carried out proportionate checks and said had these happened it would have shown that the second two credit limit increases (from £2,150) and the £4,000 loan shouldn't have been provided.

NewDay didn't agree with our investigator's view. It said that there were no late payments or over-limit fees on Ms M's card between July 2018 and March 2021 and Ms M didn't increase her spending to the limit straight after the increases. It said she managed her account well making regular payments and large repayments on some occasions. It didn't think this was the profile of someone in financial difficulties. It said the balance increases were due to balance transfers. In regard to the loan it said the repayments of £128 were affordable.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- Ms M was provided with an Aqua Mastercard with a £900 credit limit in July 2018. The information gathered at this time showed she had a historic county court judgement (47 months prior) but I didn't think this necessarily meant she shouldn't

have been provided with credit. The other information gathered suggested that Ms M was managing her accounts well and based on her declared income and the other information I didn't find I had enough to say that the account with a credit limit of £900 shouldn't have been provided.

- Ms M's credit limit was increased in May 2019 to £2,150. This was almost a year after the credit card had been provided and Ms M had been managing her account well and her balance hadn't exceeded £500. Therefore, I agreed that the account management didn't show signs that Ms M was in financial difficulty. That said, this was a significant increase in the credit limit and Ms M's credit file information showed her total borrowing had increased from less than £1,000 in 2018 to over £6,000 in January 2019. That said, taking into account the increased total borrowing against Ms M's income I didn't think I could say - at this point - that NewDay should have realised the additional lending would be unaffordable.
- In September 2019, Ms M's credit limit was increased to £4,150. This was over four times the initial limit provided just over a year earlier. While Ms M was still managing her Aqua credit card well and the balance was still less than the first credit limit provided, the credit information showed her total outstanding balances had increased to over £12,000 the month before this increase. I thought this should have raised concerns about Ms M's total credit commitments compared to her income and therefore her ability to maintain payments on any further credit. Given this I didn't think it was reasonable to increase her credit limit to £4,150 at this point.
- While I didn't think Ms M's credit limit should have been increased in September 2019, this didn't have any material impact on Ms M at the time as she didn't significantly increase her use of the credit card until after the next credit limit increase took place. In February 2020, Ms M's credit limit was increased to £5,900. As I didn't think it was reasonable to provide the increase in September 2019, I didn't think a further limit increase was reasonable. Ms M's income hadn't changed and by February 2020 the credit report suggested she had total balances of over £20,000.
- Overall, while I didn't think NewDay did anything wrong by providing Ms M with the Aqua Mastercard with the initial limit of £900, and I didn't find I had enough to say the first limit increase shouldn't have happened, I didn't think that the limit should have been increased further in September 2019 and February 2020.
- Ms M was also provided with a £4,000 loan in September 2019. This was around the same time as the second credit limit increase. The income and expenditure assessment at the time recorded Ms M's monthly income as £1,200. It recorded expenses (excluding credit commitments) of £400. It then had credit commitments of recorded of around £500. So, while these numbers would still mean repayments of £128 were affordable, this would have left Ms M with limited funds available for any unexpected costs. I thought this, combined with the increases in Ms M's credit commitments over the months leading up to this loan, should have raised concerns about Ms M's ability to meet the repayments over the full loan term. Based on this I didn't think that it was reasonable to consider this loan as sustainably affordable for Ms M.

Ms M accepted my provisional decision and provided information about money transfer fees that had been applied. NewDay didn't provide any further evidence in response to the provisional 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.

As I set out in my provisional decision and for the reasons I have explained, I don't think NewDay did anything wrong by providing Ms M with the Aqua Mastercard with the initial limit of £900, and I do not find I have enough to say the first limit increase shouldn't have happened. But I do not think that the limit should have been increased further in September 2019 and February 2020. I also do not think that it was reasonable to consider the £4,000 loan provided in September 2019 as sustainably affordable for Ms M.

As there was nothing provided in response to my provisional decision that changes my assessment, my conclusions haven't changed.

Putting things right

NewDay Ltd trading as Aqua should in regard to the loan:

- Waive any interest and charges on the £4,000 loan and treat all payments Ms M has made towards the loan as though they were payments of capital. If this results in there being overpayments, these should be refunded to Ms M along with 8% simple interest from the date of the overpayment to the date of settlement. If after the recalculation there is still an outstanding balance NewDay should work with Ms M to establish an affordable repayment plan.
- Remove any adverse information recorded about this loan from Ms M's credit file.

NewDay Ltd trading as Aqua should in regard to the credit card:

- Rework Ms M's card account, removing all interest and charges that have been applied to any balance above £2,150 after September 2019. Any refund should be applied to reduce Ms M's outstanding balance. In the event the refund results in an overpayment, this should be refunded to Ms M along with 8% simple interest per year calculated from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded about this credit card account from September 2019 from Ms M's credit file.

My final decision

My final decision is that I uphold this complaint. NewDay Ltd trading as Aqua should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 13 June 2022.

Jane Archer
Ombudsman