

The complaint

Mr B complains that NewDay Ltd (“NewDay”), trading as Aqua, irresponsibly granted him credit that he couldn’t afford to repay.

What happened

NewDay approved a credit card application for Mr B in September 2019. They initially provided a credit limit of £900 but in October 2020 they increased the credit limit to £1,900.

Mr B says they were wrong to provide credit as it wasn’t affordable for him.

NewDay disagree. They say that when they approved the credit card application they reviewed Mr B’s credit file and found he had no arrears and no pay day loans. They said that whilst there were defaults and a County Court Judgment (CCJ) on his file these were historic. They noted there was £3,900 of unsecured debt showing on Mr B’s credit file but when taking his income of £24,000 and further household income of £9,000 that they thought he would have had access to, into account they didn’t think they were wrong to offer a credit card as they believed the credit provided was affordable.

And when NewDay increased the credit limit in October 2020 they said they considered Mr B’s performance on his account and his credit file and didn’t see a reason not to extend further credit.

Our investigator thought that NewDay shouldn’t have provided the limit increase in October 2020 and suggested NewDay should take some action to remedy the situation. But as NewDay disagreed the complaint has been referred to me, 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I’ve had this approach in mind when considering what’s fair and reasonable in the circumstances of this complaint.

Account opening.

I think NewDay completed proportionate checks before approving the credit card. They reviewed Mr B’s credit file and gathered some information from him about his income and circumstances. That information suggested Mr B could afford the limited credit they were offering. The defaults on the credit file were at least 36 months old and the CCJ was significantly older and, as the credit file showed Mr B’s other credit commitments were up to date, and the credit being provided was comparatively small in relation to Mr B’s earnings, I don’t think the initial offer of an account was an irresponsible one.

October 2020 limit increase.

NewDay more than doubled the credit limit in October 2020. They say they checked the account performance and Mr B's credit file, and I think those checks were proportionate, but I don't think the checks demonstrated the increased limit was affordable for Mr B.

I think Mr B's account history was showing signs that he was having some financial difficulty. He had been using most of his limit for some months; there was a recent missed payment and a recent over limit fee applied. Mr B's unsecured debt had also increased, and he'd been in touch with NewDay only a few months before the new limit was applied, to explain his job was insecure.

I think that showed a level of reliance on the card which should have made NewDay aware that it was unlikely he would manage a higher limit in a sustainable way. I don't think NewDay needed to gather any further information. I think the information it had was enough to suggest the increased credit limit was unaffordable.

Putting things right

As I don't think NewDay should have increased Mr B's credit limit beyond £900, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr B has had the benefit of all the money he spent on the account so I think he should pay this back. Therefore, NewDay should:

- Rework the account removing all interest, fees, charges, and insurances (which have not already been refunded) that have been applied to balances above £900.
- If the rework results in a credit balance, this should be refunded to Mr B along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. NewDay should also remove all adverse information recorded after the October 2020 limit increase regarding this account from Mr B's credit file.
- Or, if after the rework the outstanding balance still exceeds £900, NewDay should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B has cleared the outstanding balance, any adverse information recorded after the October 2020 increase in relation to the account should be removed from his credit file.

*If HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mr B a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold this complaint and direct NewDay Ltd to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 September 2022.

Phillip McMahon
Ombudsman