

## **The complaint**

Mr S 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 S in October 2016. They initially provided a credit limit of £300 but in March 2017 they increased the credit limit to £950 and in July 2017 the limit was raised again to £1,550. A final limit increase was applied in December 2017 when it was raised to £2,250.

Mr S 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 S’s credit file and found he had no arrears and no County Court judgements. They said there was only £100 of unsecured debt and although there were three defaults on his credit file these were historic. They didn’t see any signs of financial difficulty.

And, when NewDay increased the credit limits they said the credit file and Mr S’s performance on his account suggested the additional credit was affordable for him.

Our investigator thought that NewDay shouldn’t have provided the limit increase in December 2017 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 S’s credit file and gathered some information from him about his income and circumstances. That information suggested Mr S could afford the limited credit they were offering. There were defaults on the credit file, but they were historic with the most recent being registered 27 months earlier, so I don’t think they should have raised concerns. Mr S’s unsecured debt was minimal and his performance on other accounts was good. He’d told NewDay that he earned £18,000 per year and I don’t think there was evidence of financial difficulty or that NewDay’s decision to approve the application and provide the initial credit was unreasonable.

### ***Limit increases in March and July 2017.***

I think the checks NewDay performed when they increased Mr S's credit limits here were proportionate. They reviewed Mr S's credit file again and considered his performance on his credit card account. Given the amount of lending and the information provided in the checks completed I don't think they needed to verify the income Mr S had told them he was earning as I don't think there was anything to suggest this may have been inaccurate.

The information NewDay gathered showed that Mr S was managing his account quite well. There was one late fee prior to the March increase but he was clearing his balance and wasn't being charged any interest prior to that increase, so I think it was reasonable to lift the limit to £950.

Mr S was still making more than the minimum payment to his account before the second increase was applied. He was still within his credit limit and whilst there had been a couple of late payments these were resolved quickly. I think the July 2017 increase was also fair.

### ***The limit increase in December 2017***

There was a significant limit increase offered in December 2017. NewDay completed similar checks and, again, I think the checks were proportionate. But I think the information they received should have given NewDay cause for concern.

I think Mr S's credit file was showing signs that he was having some financial difficulty. He was three months in arrears with a creditor and had exceeded his credit limit with NewDay in September and October 2017. He'd also been drawing cash from his credit card account which is expensive. I think all of 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 S's credit limit beyond £1,500, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr S 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 £1,500.
- If the rework results in a credit balance, this should be refunded to Mr S 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 December 2017 limit increase regarding this account from Mr S's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,500, NewDay should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the outstanding balance, any adverse information recorded after the December 2017 increase in relation to the account should be removed from his credit file.

If NewDay has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

\*If HM Revenue & Customs requires NewDay to deduct tax from any award of interest. It must give Mr S 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 S to accept or reject my decision before 22 September 2022.

Phillip McMahon  
**Ombudsman**