

The complaint

Mr B is unhappy that NewDay Ltd, trading as Aqua, provided him with credit which he feels was unaffordable for him at those times.

What happened

In April 2017, Mr B applied for a NewDay administered credit account. His application was approved, and NewDay issued Mr B with a credit account with an initial credit limit of £600.

In December 2017, NewDay increased the credit limit on Mr B's account from £600 to £1,500. Further credit limit increases took place in July and November 2018, and in March 2019, to £3,250, £3,350, and £3,850 respectively.

In 2021, Mr B raised a complaint with NewDay because he felt that none of the provisions of credit had been affordable for him at those times, and that this should have been apparent to NewDay, had they undertaken checks into his financial position before approving him for new or further credit.

NewDay looked at Mr B's complaint. They confirmed that they had undertaken checks into Mr B's financial position before offering credit to him, and they felt that in all instances there'd been nothing resulting from these checks that should have given them any cause to suspect that Mr B might not be able to afford the credit being offered to him.

Mr B wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that it had been reasonable for NewDay to have approved Mr B's application for credit in April 2017, and to have increased the credit limit on Mr B's account in December 2017. But our investigator felt NewDay should reasonably have concluded from the information it assessed in July 2018 that Mr B would most likely struggle to afford any further credit such that no further credit should have been offered to him at that time.

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.

I issued a provisional decision on this complaint on 11 May 2022 as follows:

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 checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay contend that they did that here, and confirm that they took information about his income from Mr B at the point of application to assess whether Mr B would in all likelihood be able to afford the payments that might become due on a credit account with a £600 credit limit such as he was subsequently approved for.

Additionally, NewDay confirm that they also obtained information about Mr B from a credit reference agency to get a better understanding of Mr B's wider financial position at that time. And NewDay believe that there was nothing resulting from any of the information that they gathered that they feel should have given them reasonable cause to suspect that Mr B might not be able to afford the credit that he'd applied for.

When considering the information that Mr B gave to NewDay at the point of application it's notable that he confirmed he was retired with an annual income of £13,890. NewDay also assessed Mr B's total outstanding debt at that time to have been £3,800, and based on this information I don't feel that it was unreasonable for NewDay to have concluded that Mr B would in all likelihood be able to afford the monthly payments that may become due on a credit account with a £600 credit limit.

Additionally, the information that NewDay obtained from a credit reference agency appeared to show that Mr B was managing his existing credit commitments without significant issue, with none of his other accounts in arrears and total exiting debt of around £3,800. And while Mr B did have a historical default on his account, that default had taken place over two years previously and had been for a relatively low amount. As such, I'm satisfied that it was reasonable for NewDay, in consideration of this information, to have approved Mr B for the new credit account as they did.

Mr B has explained to this service that when he provided his income information to NewDay, he included disability payments which he now understands shouldn't have been taken into account. I can appreciate Mr B's position here, but I don't feel it was unreasonable for NewDay to have assessed Mr B's application on the basis of the information they were provided with, and given the nature of the information that NewDay obtained about Mr B from a credit reference agency at that time, as described above, I don't feel that there was any reason for NewDay to have challenged the income information that Mr B gave to them, or to have reasonably declined his application for credit.

However, I'm not convinced that it was reasonable for NewDay to have increased the credit limit on Mr B's account from £600 to £1,500, which NewDay did eight months after the opening of the credit account, in December 2017.

I say this because the information that NewDay obtained from a credit reference agency at that time confirmed that Mr B's total existing credit commitments had risen from £3,800 at the time of the account application to over £9,300 in the month immediately before the credit limit increase.

This is a significant increase in Mr M's total credit, amounting to over 65% of Mr B's previously declared annual income of £13,800, and increasing to nearly 75% if the additional £900 credit that NewDay subsequently approved Mr B for is factored in.

This amount of debt doesn't seem sustainable to me, especially when Mr B's retired status is taken into consideration, which meant that it was unlikely that Mr B would have been able to increase his income so as to clear his existing debt within a reasonable timeframe.

Furthermore, while Mr B had generally been managing his NewDay account without significant incident up to that time, there were a few incidents of Mr B using the account to withdraw cash in the months leading up to the credit limit increase, with Mr B incurring charges on the account as a result.

Because of the charges that are commonly incurred when cash is withdrawn from a credit account, the using of a credit account to obtain cash can be an indicator that the account holder is struggling financially and is unable to obtain cash from other sources.

And while I don't feel that Mr B withdrawing cash from his credit account in isolation should necessarily have been taken as a sign of potential financial difficulty by NewDay, I do feel that when considered in conjunction with Mr B's significantly increased total debt and his probable inability as a retired individual to have increased his income so as to clear that existing debt in a reasonable timeframe, that NewDay should have concluded that the provision of further credit to Mr B in all likelihood wouldn't be affordable for him at that time such that the credit limit increase from £600 to £1,500 shouldn't have been offered to him.

All of which means that my provisional decision here will be that I'll be upholding this complaint in Mr B's favour on the basis that the credit limit that took place in December 2017 shouldn't have taken place.

In my provisional decision letter, I gave both Mr B and NewDay the opportunity to provide any comments or new information they might wish me to consider before I moved to a final decision.

However, both Mr B and NewDay confirmed that they were happy to accept my provisional decision, and so I see no reason not to issue a final decision on that basis. And I can confirm that my final decision is that I do uphold this complaint in Mr B's favour accordingly.

Putting things right

NewDay must reimburse to Mr B's account all charges and fees incurred on the account from the point of the credit limit increase in December 2017 onwards.

NewDay must also reimburse all interest accrued on the account on any portion of the balance over £600 from that same credit limit increase onwards.

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

If following the above reimbursements there remains a balance outstanding for Mr B to pay, NewDay must arrange a suitable repayment plan with Mr B, ensuring that no interest is charged on any part of the balance above £600.

NewDay must also remove all adverse credit file reporting relating to this account from December 2017 onwards.

Finally, NewDay must make a payment of £200 to Mr B to compensate him for the trouble and upset this matter has caused. This payment may not be used to reduce the balance on Mr B's credit account unless Mr B gives his permission for it to do so.

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 Mr B to accept or reject my decision before 7 July 2022.

Paul Cooper
Ombudsman