

The complaint

Mr T complains that NewDay Ltd lent irresponsibly when it approved credit card applications for its Aqua and Amazon accounts and later increased the credit limits.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr T applied for an Aqua branded credit card in December 2014. In the application, Mr T said he was self employed with an income of £25,000 and a council tenant. NewDay carried out a credit search and found four defaults totalling around £10,000 that were around 40 months old. NewDay used an unsecured credit figure of £1,400. NewDay approved an Aqua credit card with a £450 credit limit.

NewDay went on to increase the credit limit several times. In June 2015 it was increased to £600, December 2016 £1,300, November 2018 £2,300, April 2019 £3,300 and August 2019 £3,800.

In November 2018 Mr T applied for an Amazon credit card with NewDay and said he was employed with an income of £55,000. NewDay didn't ask Mr T about his residential status but the application recorded accommodation costs of £100 a month and living costs of £400 a month. NewDay found unsecured credit of around £20,000 and no adverse information. An Amazon credit card with a limit of £500 was approved.

NewDay increased the Amazon credit limit to £1,000 in July 2019 and £2,000 in October 2019. NewDay says each credit limit increase was approved in line with its lending criteria.

Around the start of 2020 Mr T's accounts fell into arrears. Both credit cards were closed with defaults recorded on Mr T's credit file a short time later.

In June 2021 Mr T complained that NewDay had lent irresponsibly. NewDay didn't uphold Mr T's complaint and it was referred to this service. An investigator partially upheld Mr T's complaint but NewDay didn't agree it had lent irresponsibly. As a result, Mr T's complaint has been passed to me to make a decision.

What I've provisionally 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.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Mr T could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- *The amount of credit;*

- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate.

I agree with the investigator's view that NewDay lent irresponsibly in this case. But I've reached my view for different reasons so have taken the step of issuing a provisional decision.

As our investigator has said, time limits in our rules mean we can't consider the original Aqua application from December 2014. Mr T also complains that the credit limit increased in June 2015 and as that falls within six years of the date he complained, the investigator explained this was an event we could consider. I agree.

In June 2015 NewDay increased the Aqua credit limit from £300 to £600. NewDay didn't find any new adverse information on Mr T's credit file or evidence of further unsecured borrowing in his name. The amount of the increase was reasonably modest. NewDay says it considered Mr T's credit file and account history before increasing his credit limit. I'm satisfied those checks were proportionate to the credit limit increase. I haven't found evidence of irresponsible lending.

I've reached a different decision for the following credit limit increases. I think it's important to note a sharp increase in the level of unsecured borrowing in Mr T's name from this point. It's unclear from NewDay's data why, but it didn't find any unsecured credit in Mr T's name prior to March 2016 when it records a figure of about £5,000. But Mr T's application in April 2014 only gave a figure of £1,400 for unsecured credit. At the point NewDay increased the credit limit to £1,300 in December 2016 (more than doubling the existing credit limit) the unsecured debt figure had increased to about £9,000. That's an increase of about £7,500 from the original application and around £4,000 from March 2016 (when NewDay first started to record this information).

In my view, the sharp uptick in Mr T's unsecured borrowing figures should've caused NewDay to consider completing better checks before offering more credit. There were a range of options available for completing more comprehensive checks like asking for evidence of Mr T's income and expenditure or obtaining bank statements.

I've considered what NewDay would've found if it had completed better checks. I'm satisfied NewDay would've seen an increasing reliance on unsecured credit to make ends meet and that further borrowing couldn't be sustainably repaid by Mr T. Had NewDay carried out better checks, I think it would've declined to increase the credit limit to £1,300 in December 2016.

It follows that further credit limit increases wouldn't be affordable to Mr T either. I've looked at whether there was anything in the information available to NewDay that showed his circumstances had improved. But I haven't found any evidence that Mr T was more able to sustainably manage further credit limit increases. By the time NewDay increased the credit limit to £2,300 (an increase of £1,000) in November 2018 Mr T owed around £19,500 in unsecured debt. That figure increased by a further £1,000 by April 2019 when the credit limit was increased to £3,300 and a total of £22,500 in August 2019 when the final credit limit was set at £3,800.

In my view, it should've been clear to NewDay that better checks were needed to ensure Mr T could sustainably repay further debt. Had it done so, I'm satisfied NewDay wouldn't have approved credit limit increases over £600.

Mr T applied for an Amazon credit card in November 2018 and gave a higher income figure of £55,000. But I think the application should've caused NewDay to ask more questions about Mr T's circumstances. In the same month, NewDay had increased the Aqua credit limit by £1,000 to £2,300. And the application itself contained unrealistic figures for Mr T's outgoings. The application doesn't record Mr T's residential status but says he has accommodation costs of £100 a month. That's unusually low, especially when considered against a further living costs figure of £400. In my view, a total outgoings figure of £500 for Mr T's essential outgoings is unreasonably low, especially when taking what NewDay already knew about his increasing unsecured credit figure.

I'm satisfied the information available to NewDay should've caused it to complete more comprehensive checks before deciding whether to proceed. In line with the approach I've taken to the Aqua credit card, I'm satisfied further checks would've found Mr T was unable to support further borrowing or sustainably repay it.

The Amazon credit limit was increased to £1,000 in July 2019 and £2,000 in October 2019. By July 2019 Mr T owed around £22,000, an increase of about £2,000 from the application. By October 2019 Mr T owed around £24,500 in unsecured debt.

Again, I'm satisfied the pace Mr T's unsecured credit increased should've caused NewDay to carry out better checks. Had it done so, I'm satisfied it would've found credit limit increases weren't affordable for Mr T and declined to proceed.

I intend to uphold Mr T's complaint and direct NewDay limited to refund all interest, fees and charges applied to his Aqua card from December 2016 onwards. I also intend to tell NewDay to refund interest, fees and charges applied to the Amazon credit card from inception.

It wouldn't be fair for NewDay to report adverse information where it lent irresponsibly. So I also intend to tell NewDay to remove all adverse bout both cards from Mr T's credit file from December 2016 onwards.

I invited both parties to respond with any additional comments they wanted me to take into consideration before I made my final decision. Mr T responded to confirm he accepted the provisional decision. we didn't hear back from NewDay.

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 neither party has provided new information for me to consider I see no reason to change the conclusions I reached in my provisional decision. I still think Mr T's complaint should be upheld for the same reasons.

My final decision

My decision is that I uphold Mr T's complaint and direct NewDay Ltd to settle as follows:

- Refund all interest, fees and charges applied to the Aqua credit card from December 2016 to date

- Refund all interest, fees and charges applied to the Amazon credit card from inception to date
- If the above refunds lead to outstanding balances remaining, NewDay should work with Mr T to arrange a suitable repayment plan. No future interest should be applied
- If the above refunds lead to a credit balance, it should be refunded to Mr T along with 8% interest† from the date the overpayment arose to the date of settlement
- Remove all adverse information reported about the Aqua credit card from Mr T's credit file from December 2016 onwards
- If the debts have been sold to a third party, NewDay should work with it to ensure the above settlement can be put in place. NewDay may need to consider recalling the accounts
- Remove all adverse information reported about the Amazon credit card entirely

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 29 July 2022.

Marco Manente
Ombudsman