

The complaint

Mr T complains that NewDay Ltd trading as Aqua lent to him irresponsibly.

What happened

Mr T says that NewDay lent to him irresponsibly when it increased the credit limit on the Asda and Aqua credit cards he held.

The Asda credit card account was opened in March 2009 with a credit limit of £2750. The credit limit was never increased. Mr T exceeded the credit limit on a number of occasions. In April 2013 Mr T stopped using the account and returned the card.

The Aqua credit card account was opened in October 2013 with an initial credit limit of £250. This was increased to £500 in February 2014, £600 in June 2014, £1200 in October 2014, £2100 in March 2015, £3100 in July 2015, £4050 in December 2015 and to £5250 in July 2016.

Mr T complained to NewDay. He said he was already in debt when he opened the account and he didn't think NewDay should've increased his credit limit.

In response, NewDay acknowledged that it shouldn't have agreed the final increase to the credit limit. It refunded £12 in cash advance fees and £232.71 interest to the Aqua account.

Mr T wasn't happy with NewDay's response and brought his complaint to this service.

Our investigator upheld the complaint. He said that NewDay shouldn't have accepted Mr T's application for the Aqua credit card or offered credit limit increases because Mr T was already over indebted and there was a risk that further credit wouldn't be affordable. The investigator said that NewDay should rework Mr T's Aqua card balance so that all interest, fees and charges applied from 14 October 2013 are removed.

NewDay didn't agree. It said that when Mr T applied for the Aqua account, the information regarding his Asda account wasn't available. It said that when the application for the Aqua account was received, there were no external accounts in arrears, no defaults and no payment arrangements. NewDay said that it took Mr T's indebtedness into account during its checks and offered a low credit limit of £250. NewDay said that Mr T hadn't made any late payments before any of the credit limit increases took place, and that there was no indication of financial difficulties until December 2016 when he entered into a payment arrangement with another lender. NewDay said it thought the checks it had carried out were reasonable, both at the time the account was opened and when the credit limit was increased.

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.

In considering whether NewDay lent irresponsibly to Mr T, I've looked at both the opening of the Aqua account and the increases to the credit limit. There isn't enough information

available about the Asda account for me to assess whether NewDay should have agreed to open this or whether it lent irresponsibly.

Mr T applied for the Aqua account in October 2013. I've looked at whether NewDay carried out reasonable and proportionate checks before agreeing to open the account and extending credit to Mr T.

I've reviewed the information available to NewDay at the time of Mr T's application. This shows that Mr T had advised NewDay that he had income from employment of £16,500 per annum, with additional household income of £7000. The information showed that Mr T had £12,000 of unsecured debt. There were no arrears, defaults or county court judgments on Mr T's credit file.

NewDay has said that based on these checks, and its criteria, it decided to provide Mr T with a credit card and a credit limit of £250.

I've also reviewed the Asda account which Mr T held previously. Based on what I've seen, it looks as if Mr T was experiencing difficulties at this time, because he incurred several over limit and late payment fees in the 24 months before he handed the card back.

I appreciate that NewDay didn't manage the Asda card at this time. However, taking all the available information into account, I think Mr T's circumstances at the time, with his low income and high level of unsecured debt, together with the CII index rating of 44, meant that NewDay ought to have been aware that there was a risk that the lending wasn't affordable for Mr T. So, in considering whether the checks carried out by NewDay were reasonable and proportionate, I don't think they were. I think NewDay should have carried out further checks, including checks to establish how much of Mr T's income was being used to service his existing unsecured debt.

I appreciate that the initial credit limit was low. However, on balance, I think the level of unsecured debt and the low level of income indicated an affordability risk. In the circumstances, I don't think NewDay acted responsibly when it offered Mr T the Aqua credit card.

I've taken into account the points that NewDay has made. It said that Mr T hadn't made any late payments. However, Mr T has explained that although he made payments to the Aqua account on time. He was only able to do this by taking out payday loans.

For the reasons I've explained, I don't think NewDay has acted responsibly in extending credit to Mr T.

Putting things right

To put things right, NewDay Ltd trading as Aqua should:

Rework Mr T's Aqua card balance and remove all interest, fees and charges from 14 October 2013

If this results in an outstanding balance, NewDay should agree a repayment plan with Mr T

If there is no outstanding balance, NewDay should remove any adverse information from Mr T's credit file

If the reworking of the account results in the account being in credit, NewDay should return the credit amount to Mr T and pay 8% simple interest per year from the date of payment to

the date of settlement

My final decision

My final decision is that I uphold the complaint. NewDay Ltd trading as Aqua must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 7 October 2022.

Emma Davy
Ombudsman