

The complaint

Mr L says NewDay Ltd, trading as Aqua, irresponsibly lent to him.

What happened

Mr L applied for a credit card in May 2016. It was approved with a limit of £300 and he was given four subsequent credit limit increases by NewDay.

The first increase in September 2016 was for £600 taking the limit to £900; the second in March 2017 was for £250 increasing the limit to £1,150; the third in July 2017 was for £500 increasing the limit to £1,650 and the fourth in November 2017 raised the limit by £500 to £2,150.

Mr L says he is struggling financially due to the number of credit cards and loans he had. The credit limit increases from NewDay contributed to his financial difficulties.

Our investigator did not uphold Mr L's complaint. He said NewDay's checks didn't show any signs that the lending would be unaffordable, and nor did the financial information Mr L had sent in with his complaint.

Mr L disagreed, saying he was repaying multiple loans and cards at the same time, as well as using most of his £5,000 overdraft each month. He asked for an ombudsman's review.

I reached a different conclusion to the investigator and planned to uphold the complaint in part. So I issued a provisional decision, key points follow and form part of this final decision. I asked both parties to send in any comments or new evidence by 21 July 2021.

Summary of my provisional decision

(please note this referred to Mr L as Mr T but this has been corrected in the extracts below)

The card application and initial limit of £300

When Mr L applied for the credit card NewDay asked about his employment and residential status and for details of his gross annual income. It carried out a credit check to understand his credit history and existing credit commitments. NewDay has shared the results of these checks.

They show that Mr L declared an income of £55,000 and that he had £16,900 of unsecured debt. He had nine active accounts that were all up-to-date. This included a payday loan for £250. Given the amount of credit it was offering, Mr L's declared income and the fact all of Mr L's active accounts were up-to-date I don't think it would have been proportionate for NewDay to have carried out a fuller financial review. I think, at this stage, it was reasonable for NewDay to conclude the card and its repayments would be sustainably affordable for Mr L.

It follows I don't think NewDay was wrong to give Mr L the card.

The first credit limit increase

NewDay offered Mr L a credit limit increase of £600 to £900 in September 2016. I think this was a significant increase and NewDay needed to be sure Mr L could sustainably repay a balance of £900 within a reasonable period of time. NewDay's submission suggests that its decision to increase the credit limit on Mr L's account was largely based on reviewing his spending and payment behaviour. I have some concerns with this approach as it's not clear to me why a borrower who is able to successfully manage a given credit limit can then automatically be deemed, without further checks at the time of the decision, to be able to successfully manage a higher limit. And in addition, Mr L's account had only been open for four months.

In the circumstances of this case I don't think solely these types of checks were sufficient, given the results they showed. In his first month as a cardholder Mr L withdrew over 90% of his limit in cash which he then repaid in full. He then withdrew 50% of his limit in cash the next month. NewDay could see his external borrowing had increased to £21,635 at the time of the first increase, and he also took out a payday loan that month. I am not saying any one of these facts was a reason not to increase Mr L's limit. But in the round I think they ought to have triggered further checks so NewDay could get the assurances it needed that Mr L would be able to sustainably repay a higher balance in a reasonable period of time.

To look at what better checks would most likely have shown NewDay I have reviewed Mr L's bank statements from prior to the limit increase. I am not saying it had to do exactly this, but it is one way for me to recreate what a fuller financial review would most likely have shown NewDay. The statements show Mr L was having significant problems managing his money: he was consistently overdrawn even after payday, often close to his £5,000 limit; he was using payday loans and he was spending a very high proportion of his income on gambling (over £1,000 in August 2016 for example). So I think NewDay, as a responsible lender, would have realised any additional credit would not be sustainably affordable for Mr L. I have looked at a number of Mr L's bank statements for the following year 2017 and the same money management problems continued.

It follows I think NewDay was wrong to provide the September 2016 credit limit increase, and all subsequent increases to Mr L.

This means Mr L went on to pay interest and charges on four advances of credit that shouldn't have been provided to him. So he has lost out as a result of what NewDay did wrong.

I then set out what NewDay would need to do to put things right if I went on to uphold the complaint.

Mr L responded saying he had no further information to provide and accepted the outcome of the provisional decision. NewDay did not respond.

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 unaffordable/irresponsible lending - including all the relevant rules, guidance and good industry practice - is set out on our website and I have followed it here.

As neither party sent in any new information I have no reason to change the findings or outcome I set out in my provisional decision.

It follows I find NewDay was wrong to provide Mr L with all four credit limit increases, but not the initial £300 limit when he applied for the card.

Putting things right

NewDay must:

- rework Mr L's NewDay account to ensure that from September 2016 interest is only charged on the first £300 outstanding, all late payment and over limit fees should also be removed;
- if an outstanding balance remains on Mr L's account once all adjustments have been made NewDay should contact Mr L to arrange a suitable repayment plan for this;
- if the effect of all adjustments results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr L along with 8% simple interest* on the overpayments from the date they were made until the date of settlement; and
- amend Mr L's credit file to remove any adverse information recorded from September 2016 to date.

*HM Revenues & Custom requires NewDay to take off tax from this interest. NewDay must give Mr L a certificate showing how much tax it's taken off if he asks for one.

My final decision

I am upholding Mr L's complaint in part. NewDay Ltd, trading as Aqua, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 19 August 2022.

Rebecca Connelley
Ombudsman