

The complaint

Mr R complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved his credit card application and later increased the credit limit.

What happened

In January 2019 Mr R applied for a credit card with Aqua. In his application, Mr R said he was self employed with an income of £26,000. Mr R also said he was single and living with parents. Aqua carried out a credit search and found Mr R owed around £12,400 to other lenders. Aqua also found a default that was 16 months old at the time of application. A credit card with a limit of £450 was approved.

In June 2019 Aqua increased Mr R's credit limit to £1,350 and in October 2019 it was increased to £2,750. Regular payments stopped in March 2020.

Last year, Mr R complained that Aqua had lent irresponsibly. Aqua didn't agree and said it had carried out reasonable checks before agreeing to lend. An investigator at this service looked at Mr R's complaint and upheld it. They thought Aqua should've carried out better checks before increasing the credit limit in June and October 2019. Aqua didn't agree and asked to appeal, so Mr R's complaint has been passed to me to make a 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.

Before a business agrees to lend, it should take reasonable steps to ensure it does so in a responsible way. There's no set list of checks a lender has to complete. In practice, this means businesses should ensure proportionate checks are carried out to make sure the customer can afford to repay the borrowing in a sustainable way.

These checks should take into account various factors, like the amount being lent, the costs to the borrower each month, credit history and the consumer's income and outgoings. As the relationship between lender and borrower progresses, the business may need to consider carrying out more comprehensive checks to ensure the borrower can afford repayments in a sustainable way.

When Mr R applied for his credit card, Aqua took information about his circumstances and living situation. In addition, Aqua took details of Mr R's income and checked his credit file. Based on that information, Aqua approved a credit limit of £450.

I think it's fair to say the original credit limit was reasonably modest and, in my view, the checks completed were proportionate to the borrowing. I don't think it was unreasonable for Aqua to approve the initial application based on the information it held.

In June 2019, Aqua increased Mr R's credit limit threefold to £1,350. Whilst I understand Mr R had made payments to Aqua, the account had only been active for four months when

the assessment was completed. In two of those four months, Mr R withdrew cash from his credit card. In addition, Aqua was substantially increasing the credit limit using the same information. In my view, this would've been a reasonable point for Aqua to consider completing better, more proportionate checks, to ensure Mr R could sustainably manage higher repayments.

I note that, in the months that followed, Mr R withdrew a substantial amount of cash from his credit card. In August 2019 alone Mr R withdrew £1,370 in cash incurring a reasonably high fee. Again, I think this should've shown Aqua Mr R had become reliant on credit to make ends meet and that it should've carefully considered whether to extend the borrowing further. Again, I think Aqua should've completed better checks before increasing the credit limit to £2,750.

I've considered the sort of checks Aqua could've carried out. There's a range, but one option was looking at Mr R's bank statements to get a picture of his circumstances. Mr R has sent us copies covering the period above. Looking at them, I can see Mr R was gambling significant sums that took up a substantial part of his income. Had Aqua carried out better checks, like reviewing Mr R's bank statements, I'm satisfied it wouldn't have increased Mr R's credit limit in June and October 2019.

For the reasons given above, I'm upholding Mr R's complaint and directing Aqua to refund all interest and charges applied to balances over £450 from October 2019 onwards. Aqua will need to discuss affordable repayment options going forward. And once Mr R has cleared the outstanding balance, Aqua should take steps to amend his credit file to remove adverse information, including its default.

My final decision

My decision is that I uphold Mr R's complaint and direct NewDay Ltd trading as Aqua to settle as follows:

- Rework the account to ensure that from June 2019 interest is only charged on the first £450 outstanding - to reflect the fact that no further credit limit increases should have been provided
- If an outstanding balance remains once these adjustments have been made, NewDay should contact Mr R to arrange a suitable repayment plan
- Once no outstanding balance remains, any adverse information should be removed from the credit file
- If the refund brings means there's no remaining balance, any extra should be treated as overpayments and returned to Mr R plus interest of 8% simple from the date they were made to the date of settlement †
- If the debt has been sold to a third party, NewDay will need to work with it to put the above settlement in place. If necessary, NewDay should consider buying the debt back in order to ensure it can settle in line with this decision.

† HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Mr R a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 28 September 2022.

Marco Manente
Ombudsman