

The complaint

Miss D complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved her credit card application and later increased the credit limit.

What happened

Miss D applied for a credit card with Aqua in 2016. It was approved with an initial credit limit of £300. The credit limit was increased to £900 in November 2016, to £1700 in April 2017 and to £3200 in December 2020.

Miss D complained that Aqua had lent irresponsibly when it approved her credit card. Aqua didn't agree and didn't uphold Miss D's complaint. Miss D referred her complaint to this service, and it was passed to an investigator. She upheld the complaint and said she didn't think NewDay had acted fairly when it increased the credit limit to £1700. NewDay didn't agree so the complaint has been passed to me 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.

Our approach to complaints about irresponsible lending is set out on our website. I've had this approach in mind when considering Miss D's complaint.

NewDay needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss D could repay the credit in a sustainable manner. These checks could include several different things such as how much was being lent, the repayment amount and Miss D's income and expenditure and credit history.

Account opening

I think NewDay completed proportionate checks before approving the credit card. It reviewed Miss D's credit file and gathered information about her income and outgoings. I don't think the information gathered would have given cause for concern. I don't think it would have been proportionate for NewDay to have completed further checks.

Credit limit increase to £900

NewDay has said that it checked Miss D's credit file and considered the information it already held about her income and expenditure before it approved the first credit limit increase. It also took account of Miss D's account performance since the account was opened.

Because the credit limit was increased significantly, I think it would've been proportionate if, in addition to the checks already carried out, NewDay had carried out further checks to find out more about Miss D's income and expenditure, including other credit commitments at this time.

Because of this, I've looked at Miss D's bank statements for the period prior to the credit limit increase. These show that Miss D had essential expenditure of around £1210 and income of around £2385, leaving monthly disposable income of around £1175. Based on this, I'm satisfied that the credit limit was affordable for Miss D. And I think NewDay would've reached the same conclusion if it had looked at this information. So I think the credit limit was increased fairly.

Credit limit increase to £1700

Because this was a significant increase in credit, I think NewDay should've carried out further checks to find out more about Miss D's income and expenditure.

Because of this I've looked at Miss D's bank statements for the period prior to the credit limit increase. These show that her essential expenditure was around £2420 with income of around £2385, leaving monthly disposable income of minus £35.

Because Miss D's credit commitments had increased significantly, and because her disposable income was in a deficit position, I don't think NewDay would have approved the credit limit increase if it had looked at this information. So I don't think the decision to increase the credit limit was fair. It was irresponsible of NewDay to create further indebtedness for Miss D.

Putting things right

To settle Miss D's complaint NewDay should:

Remove any interest and charges incurred after April 2017 as a result of the credit limit increase. That is, NewDay can only add interest accrued on the balance up to the credit limit of £900

Remove all interest and charges incurred on the account since April 2017 (because no new purchases should've been allowed after this date)

Calculate how much Miss D would have owed after the above adjustments. Any repayments made by Miss D since April 2017 should be used to reduce the adjusted balance.

If this clears the adjusted balance, the balance should be refunded to Miss D along with 8% simple interest calculated from the date of the overpayment to the date of settlement

If after the adjustments have been made Miss D no longer owes any money, then all adverse information relating to this account should be removed from her credit file from April 2017

If an outstanding balance remains, NewDay should agree an affordable repayment plan with Miss D. Once Miss D has cleared the balance, any adverse information should be removed from her credit file.

HMRC require NewDay to deduct tax from the refund of interest. It must provide Miss D with a certificate showing how much tax has been taken off if she asks for this.

My final decision

I uphold the complaint and direct NewDay Ltd trading as Aqua to take the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 6 December 2022.

Emma Davy
Ombudsman