

Complaint

Miss C has complained about a credit card NewDay Ltd (trading as “Aqua”) provided to her. She says the credit card was irresponsibly provided to her and then her limit increased even after she was only making minimum payments.

Background

Aqua provided Miss C with a credit card with an initial limit of £900 in March 2020. Miss C’s credit limit was increased to £1,650.00 in July 2020.

One of our investigators reviewed what Miss C and Aqua had told us. And she thought Aqua hadn’t done anything wrong or treated Miss C unfairly in relation to providing the credit card or increasing the credit limit. So she didn’t recommend that Miss C’s complaint be upheld.

Miss C disagreed and asked for an ombudsman to look at the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss C’s complaint.

Aqua needed to make sure it didn’t lend irresponsibly. In practice, what this means is Aqua needed to carry out proportionate checks to be able to understand whether Miss C could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Aqua says it initially agreed to Miss C’s application after it obtained information on her income and carried out a credit search. And the information obtained indicated that Miss C would be able to make the monthly repayments due for this credit card. Due to Miss C’s account being relatively well managed she was then offered a credit limit increase to £1,650.00.

On the other hand Miss C says that she shouldn’t have been lent to.

I’ve considered what the parties have said.

What's important to note is that Miss C was provided with a revolving credit facility rather than a loan. And this means that to start with Aqua was required to understand whether a credit limit of £900 could be repaid within a reasonable period of time, rather than all in one go. A credit limit of £900 required relatively small monthly payments in order to clear the full amount owed within a reasonable period of time.

Aqua's credit check did indicate that Miss C had had previous difficulties with credit in the form of at least one default. But it's fair to say that these were historic given that the latest of the defaults occurred almost three years prior to this application. And as Miss C didn't have much in the way of active debts or commitments at the time of application, I don't think that it was unreasonable for Aqua to rely on what Miss C said about her income and expenditure at the time of application either.

As this is the case, I'm satisfied that the checks carried out before Miss C was initially provided with her credit card were reasonable and proportionate.

For the credit limit increase, it appears as though Aqua relied on Miss C having been managed well in the four months or so since her account had been opened. I'm not necessarily persuaded that Miss C's account had been managed as well as Aqua believes it was. This is especially as it appears as though Miss C went over her £900 credit limit in May 2020.

Nonetheless, I'm mindful that Miss C not only brought her balance back within her credit limit in June 2020, but she made a payment sufficient to clear her entire balance. And there also wasn't anything in the way of any additional significant adverse information on the credit search Aqua carried out either. So it's fair to say that there were at least some indications that Miss C could make payments to repay the amount of the credit limit increase within a reasonable period of time.

In any event, at the absolute best it might be reasonable to say that Aqua should have found out more about Miss C's living expenses. But I don't think that Aqua would have made a different decision even if it had asked Miss C for more information. I say this because the information Miss C has provided about her finances at the time appears to show that when her committed regular living expenses as well as what Aqua knew of her credit commitments were deducted from the income she declared, she did have the funds, at the time at least, to sustainably make the repayments due.

In reaching this conclusion, I've thought about what Miss C has said about being overdrawn. But I don't think that whether Miss C's overdraft could have been repaid would have been a factor in Aqua's decision. After all, it didn't have to ask for Miss C's bank statements to find out more about her living costs and in any event it wasn't responsible for Miss C's overdraft provider's decision to provide her with such a limit, or ensuring that she remained able to repay that facility within a reasonable period of time.

So, in these circumstances, it's difficult for me to conclude that Aqua would have found out that Miss C had insufficient funds to make the repayments for an increased credit limit even if it had tried to find out more about her living costs at this time.

It's possible that Miss C's position might have been worse than what it looks like, or that it worsened after the credit limit increase took place. But it wouldn't be fair and reasonable for me to use hindsight here, or say that Aqua should have known this was the case. This is especially as the available information indicates proportionate checks would more likely than not have shown that Miss C could repay what she could owe at the time the lending decision was made.

So overall while I can understand Miss C's sentiments, I don't think that Aqua treated Miss C unfairly or unreasonably when providing her with her credit card or subsequently increasing her credit limit. And I'm not upholding Miss C's complaint. I appreciate this will be very disappointing for Miss C. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Finally I've seen what Miss C has said about being unhappy that Aqua didn't send her a final response within eight weeks. However, as our investigator has mentioned, we're not able to look at complaints about complaint handling. Complaint handling and whether a firm meets its time limit obligations under the rules are matters for the regulator.

In any event, I'm required to consider whether a customer has lost out because of a firm's actions. In this case, not sending Miss C a final response within eight weeks enabled Mrs C to refer her complaint to us on this basis. So I don't think that Aqua's failure to send Mrs C a final response prevented her from having her complaint considered by us and I don't think that this caused her to lose out.

My final decision

For the reasons I've explained, I'm not upholding Miss C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 13 March 2024.

Jeshen Narayanan
Ombudsman