

The complaint

Mrs M complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved her credit card application and later increased the credit limit on several occasions. Mrs M also complains that after she raised the irresponsible lending complaint NewDay closed her credit card and increased its monthly payments.

What happened

Mrs M applied for a credit card with NewDay in July 2019. In Mrs M's application she said she was employed with an income of £75,000 and a homeowner with a mortgage. NewDay says it carried out a credit search and found Mrs M had around £14,700 in unsecured debt at the time with no current arrears. NewDay found a default that was around 51 months old for £300 but no other adverse information like bankruptcies or County Court Judgements. NewDay applied its lending criteria and approved Mrs M's credit card with a limit of £1,200.

Mrs M's credit limit was increased to £2,950 in January 2020, £4,450 in September 2021 and £5,950 in January 2022. NewDay says that before each credit limit increase it reviewed Mrs M's account history and credit file to check she could afford the increased costs.

Last year, Mrs M complained that NewDay had lent irresponsibly and it issued a final response on 11 December 2023. NewDay advised that it had carried out the relevant checks before approving Mrs M's borrowing. NewDay also advised it had taken the decision to close Mrs M's credit card to new spending in light of the comments she made when raising the complaint.

Mrs M responded to say that she hadn't complained about the current affordability of the credit card and was concerned about the impact of the lending on a historic basis. NewDay issued a follow up final response on 9 February 2024 but didn't agree to reinstate new spending on Mrs M's credit card. But NewDay said it had agreed to refund two months' interest totalling £424.62 as a gesture of goodwill to resolve Mrs M's complaint.

NewDay has confirmed Mrs M's credit card balance was repaid in March 2024.

An investigator at this service looked at Mrs M's complaint. They weren't persuaded that NewDay had lent irresponsibly or treated Mrs M unfairly by limiting the credit card and felt the settlement of £424.62 in refunded interest was a fair way to resolve her complaint. Mrs M asked to appeal, so her 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 agreeing to lend and later increasing the credit limit, the rules say NewDay had to complete reasonable and proportionate checks to ensure Mrs M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the

borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

As noted above, when Mrs M first applied she confirmed she was a homeowner with mortgage and employed with an income of £75,000. NewDay's credit search found Mrs M's unsecured debts of £14,700 and that they were well handled without any missed payments. NewDay noted Mrs M had a default that was over four years old for around £300 and I'm satisfied it factored that into its lending assessment.

Our investigator noted that repayments for the £1,200 credit limit, if used in full, would come to around £60 a month. And they felt the information NewDay had available showed Mrs M was able to sustainably afford repayments at that level with a new monthly income of around £4,300. I agree with the investigator's view that relying on the information Mrs M provided in her application and what NewDay found on her credit file was reasonable and proportionate to the credit card application and limit that was approved. I haven't been persuaded that NewDay lent irresponsibly when it approved a credit limit of £1,200.

The credit limit was increased to £2,950 in January 2020. NewDay has provided evidence of the data it used and I can see it was monitoring Mrs M's account use and payment history. In addition, NewDay was monitoring Mrs M's credit file and found no evidence of new missed payments or adverse credit. The increased payments caused by the higher credit limit still fell well within NewDay's affordability criteria. I haven't seen anything that suggests Mrs M would've been unable to support the additional costs of a higher credit limit. In my view, NewDay's decision to increase Mrs M's credit limit to £2,950 was reasonable based on the information it had available.

The credit limit was increased to £4,450 in September 2021 and £5,950 in January 2022. Again, NewDay has provided evidence from its systems to show what it knew about Mrs M before increasing her credit limit. I note that no new arrears or adverse information was found on both the occasions Mrs M's credit limit was increased. And the level of unsecured debt appears to have been reducing when compared against Mrs M's original application. But given the length of time since Mrs M's application and the overall increase in the credit limit, I agree with the investigator that it would've been appropriate for NewDay to have gone further and carried out a more comprehensive set of checks. One option NewDay had was to review Mrs M's bank statements which is what I've done.

In the three months before Mrs M's credit limit was increased to £4,450 she earned a net income of around £4,250. Mrs M's committed outgoings came to around £3,050 each month at the time. That left around £1,200 as disposable income, compared to a repayment figure of £222.50 for the new credit limit. In my view, Mrs M's bank statements showed she had capacity to sustainably maintain the increased borrowing costs and I haven't been persuaded NewDay lent irresponsibly.

In the months before Mrs M's credit limit increased to £5,950 she earned around £5,000 net. Mrs M's bank statements show an average committed expenditure of around £2,225 leaving around £2,750 in disposable income. When compared against an increased monthly payment of around £300, the higher credit limit appears affordable for Mrs M.

So whilst I think NewDay ought to have done more before approving the final two credit limit increases, I'm satisfied it's more likely than not that it still would've proceeded even if it had carried out better checks. I'm sorry to disappoint Mrs M but I haven't been persuaded that NewDay lent irresponsibly when it approved the credit card application and later increased her credit limit.

Mrs M's told us she feels NewDay's decision to close her credit card to new spending after she raised the complaint was unreasonable and failed to reflect the points she raised. But when Mrs M complained that NewDay had lent irresponsibly, I think it was reasonable for it to review her account on the basis she may've been finding repayments unaffordable.

I note that NewDay's terms and condition allow it to reduce a credit limit or suspend an account from further spending if it has concerns the borrower may be at risk of being unable to repay the outstanding balance. So whilst I understand Mrs M's frustration, I'm satisfied it was a step NewDay was entitled to take. With that said, it was clearly a shock to Mrs M and I can see she found the decision to restrict the credit card frustrating. NewDay's second final response refunded interest totalling £424.62 as a gesture of goodwill, in recognition of Mrs M's concerns. I'm satisfied that fairly reflects the level of distress and inconvenience caused and haven't found grounds to increase the award further.

Mrs M also says NewDay increased her monthly repayments after it restricted the credit card. NewDay's explained the contractual monthly payment remained the same, but that it added an additional recommended extra payment to help reduce the outstanding balance quicker. The recommended extra payment was set out on credit card statements issued from December 2023 onwards.

I've reviewed the information the statements provided and they advised Mrs M needed to ensure she made the minimum contractual repayment by the due date. The statement also noted that the recommended extra payment would be used to reduce the balance quicker. I'm satisfied that Mrs M could have contacted NewDay to request her payments were set at the minimum contractual amount on receipt of her credit card statements. Overall, I haven't been persuaded that NewDay treated Mrs M unfairly.

I'm sorry to disappoint Mrs M but for the reasons I've noted above I haven't been persuaded to uphold her complaint.

My final decision

My decision is that I don't uphold Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 11 June 2024.

Marco Manente
Ombudsman