

The complaint

Mr F complains that NewDay Ltd trading as Aqua lent to him irresponsibly.

What happened

Mr F applied for a credit card with NewDay in February 2015, NewDay approved the application and gave Mr F a credit card with an initial credit limit of £250.

The credit limit was increased as follows:

12 June 2015 to £900

20 October 2015 to £1,950

19 February 2016 to £3,200

1 November 2016 to £3,950

Mr F complained that NewDay had lent to him irresponsibly.

NewDay didn't uphold Mr F's complaint. It said it had carried out proportionate checks and that the lending was affordable.

Mr F remained unhappy and brought his complaint to this service.

Our investigator said the initial lending and the first three credit limit increases were fair. But she said she wasn't satisfied that proportionate checks had been carried out before the fourth credit limit increase and said that the available information showed that this increase wasn't affordable for Mr F.

NewDay didn't agree so I've been asked to review the complaint.

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 general approach to complaints about irresponsible and unaffordable lending is set out on our website. I've had this approach in mind when considering Mr F's complaint.

Before agreeing to lend, the rules require NewDay to have completed reasonable and proportionate checks to make sure that Mr F could afford to repay what was being lent to him. There are no set checks that a lender has to carry out, but the checks need to be focussed on the borrowers circumstances. The nature of what's considered to be reasonable and proportionate will vary depending on factors such as the amount of credit, the total sum repayable, the amount of repayments, the cost of the credit and the consumers individual circumstances.

Account opening

I can see that when Mr F applied for the account, he declared annual income of £14,000. NewDay carried out a credit check which showed that Mr F had external unsecured debt of £100.

The credit check showed that Mr F had defaulted on one account 38 months prior. There was no other adverse information on the credit check such as arrears, defaults or county court judgments.

I've thought about whether the checks carried out by NewDay at the time when Mr F applied for the account were reasonable and proportionate. At the time, Mr F's level of unsecured debt was very low and there was no recent adverse information on his credit file. I don't think there was any information at this time to suggest that Mr F wouldn't be able to sustainably repay the lending. Based on what I've seen, I think the checks were reasonable and proportionate and the lending decision was fair.

Credit limit increases June 2015, October 2015 and February 2016

The credit limit was increased to £900 in June 2015. It was increased to £1950 in October 2015, and to £3,200 in February 2016.

During this time Mr F had generally managed the account well and hadn't exceeded the credit limit. There were two late payment charges.

NewDay has provided information which shows that it carried out a credit check prior to each credit limit increase. These checks looked at things including Mr F's overall external credit and how it was utilised, the arrears status of external accounts, any payment plans relating to external credit and any payday loan history.

Based on the type and amount of credit being provided, I'm satisfied that the checks were reasonable and proportionate. I haven't seen anything in the information gathered from these checks which suggests that the credit limit increases weren't affordable for Mr F.

Credit limit increase November 2016

The credit checks carried out by NewDay prior to the final credit limit increase showed that Mr F's external unsecured debt had increased to £9,267. This was a significant increase in unsecured debt and equated to around 66% of Mr F's annual income.

NewDay would also have been aware from looking at how Mr F was managing the account that in the months leading up to the final credit limit increase, Mr F had made 2 consecutive late payments to his account.

The information also shows that Mr F was utilising more than 90% of the available credit on the account.

Taking this into account, I think NewDay should've carried out further checks to ensure that the lending was affordable for Mr F.

I've gone on to consider what further checks would've shown (had they been carried out) to decide whether the lending decision was fair.

I've reviewed the account for the 6 months leading up to the final credit limit increase. NewDay has said that the average balance during this time was £2,542, which equated to

around 79% utilisation of the available credit limit. I don't disagree with these figures. However, the month prior to the final credit limit increase, Mr F was utilising over 90% of the available credit limit, He had also made 2 consecutive late payments before the final credit limit increase.

I think that this should've alerted NewDay to the fact that Mr F might have been experiencing financial difficulties, and that any further increase in the credit limit was likely to be unaffordable for him.

Taking everything into consideration I don't think NewDay acted responsibly when it gave the fourth credit limit increase to Mr F.

Putting things right

Because I don't think NewDay acted responsibly when it gave the fourth credit limit increase, I don't think it's fair that Mr F should be charged any interest or charges on balances which exceed £3200.

That said, Mr F has had the benefit of the money so he should pay back the balance.

NewDay Ltd must:

Rework the account and remove all interest and charges applied to balances over £3200 after 1 November 2016

If after the rework there is a credit balance, this should be returned to Mr F along with 8% simple interest per year * calculated from the date of each overpayment to the date of settlement.

NewDay should also remove all adverse information recorded after 1 November 2016 relating to this account from Mr F's credit file

If after the rework the outstanding balance exceeds £3200, NewDay should arrange an affordable repayment plan with Mr F for the remain amount. Once Mr F has cleared the outstanding balance, any adverse information recorded after 1 November 2016 in relation to the account should be removed from his credit file.

*HMRC require NewDay to deduct tax from any award of interest. NewDay must give Mr F a certificate showing how much tax has been taken off if he asks for one.

My final decision

My final decision is that I uphold the complaint. NewDay Ltd must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 7 November 2024.

Emma Davy
Ombudsman