

The complaint

Mrs H complains that NewDay Ltd trading as Aqua lent irresponsibly when it approved her credit card application and went on to increase the credit limit.

What happened

In February 2019, Mrs H applied for a credit card with Aqua. In her application, Mrs H said she had an income of £9,000. Aqua says it carried out a credit search and found Mrs H had around £5,200 of unsecured debt with other lenders and a County Court Judgement (CCJ) for £1,100 that was 49 months old at the point of application. No recent missed payments or other adverse credit was found.

Aqua says it applied its lending criteria and approved a credit card with a limit of £450. In June 2019 Aqua increased the credit limit to £1,700 and in October 2019 it was increased to £3,450.

In October 2021, Mrs H started to fall behind with her payments. The credit card was ultimately closed at default around May 2022.

Earlier this year, Mrs H complained that Aqua lent irresponsibly and it issued a final response on 1 March 2024. Aqua didn't uphold Mrs H's complaint and said it had completed the necessary checks before deciding to lend and increase her credit limit.

Mrs H referred her complaint to this service and it was passed to an investigator. They thought Aqua should've completed a more thorough set of lending checks, like looking at Mrs H's bank statements. The investigator reviewed Mrs H's bank statements but felt they showed she had sufficient disposable income to be able to afford the credit card with limits up to £3,450.

Mrs H asked to appeal and said she accepted the initial decision to approve a credit limit was reasonable, she remained of the view that Aqua lent irresponsibly when it increased the credit limit in June and October 2019. As Mrs H asked to appeal, 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 or increasing the credit limit, the rules say Aqua had to complete reasonable and proportionate checks to ensure Mrs H 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.

In response to the investigator, Mrs H has confirmed she accepts that the decision to approve the original application she made with a credit limit of £450 was reasonable. I agree with Mrs H. I note Mrs H had a CCJ that was around four years old at the point of application, but her remaining credit was up to date and there were no recent signs of financial difficulty. Mrs H declared a reasonably modest income of £9,000 but I think it's reasonable to say Aqua's initial credit limit was low at £450 which limited the overall risk. In my view, Aqua's decision to approve the credit card with a limit of £450 was reasonable based on what it knew about Mrs H.

The decision to increase Mrs H's credit limit from £450 to £1,700 came after a relatively short period of time – around four months after the original application was approved. I note Aqua was more than tripling the original credit limit, relying on the data it obtained during the application process. And Aqua hasn't provided any details of an assessment of Mrs H's income and outgoings to show it considered whether she was able to afford further credit. In my view, Aqua should've gone further and carried out a more comprehensive set of checks. One option would've been to look at Mrs H's bank statements, which is what I've done here.

Mrs H has provided copies of her bank statements and I can see she held a joint account at the point Aqua was increasing the credit limit. That makes assessing Mrs H's ability to afford the new credit limit a little harder as the bank statement will show both income and outgoings for both account holders. I've taken an overall view of Mrs H's bank statements, considering all the income and all the outgoings to decide whether Mrs H had capacity to afford the credit limit increases Aqua approved.

Looking at three months bank statements before the June and October 2019 credit limit increases, I haven't been persuaded Aqua lent irresponsibly. The bank account statements show Mrs H's income along with Mr H's income. In addition, their regular outgoings are shown each month. All of the bank statements I looked at showed Mrs H's current account was well run with no evidence of being overcommitted or returned payments. The bank statements show Mrs H and Mr H had disposable income each month after their regular outgoings and essential living expenses were covered. And the disposable income appeared to be sufficient to cover Mrs H's repayments to Aqua.

I also note that Mrs H's other outstanding credit was up to date and there was no evidence found on her credit file of new adverse credit, missed payments or payday lending. Mrs H's unsecured balance increased by around £700 between the point of the original application and the final credit limit increase in October 2019. And, whilst I can see Mrs H had a CCJ on her credit file, it was around four years old at the point of application and I'm satisfied Aqua was aware of it and factored it into its lending assessments.

I'm sorry to disappoint Mrs H but I'm satisfied that even if Aqua had reviewed her bank statements before increasing the credit limit it would've still most likely approved them on the basis they appeared affordable. As I haven't been persuaded Aqua lent irresponsibly or treated Mrs H unfairly, I'm not telling it to do anything else.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Aqua lent irresponsibly to Mrs H or otherwise treated her unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 13 November 2024.

Marco Manente
Ombudsman