

## **The complaint**

Ms T complains that NewDay Ltd trading as AO Finance (AO) lent irresponsibly when it approved her credit card application.

## **What happened**

Ms T applied for an AO credit card in December 2019. In her application, Ms T gave an annual income of £15,000 that AO calculated left her with around £1,103 a month net. AO says it used a tool provided by the credit reference agencies to verify Ms T's declared income. A credit search was completed that found no evidence of adverse credit, defaults or recent missed payments. The credit search found no evidence of other outstanding debts in Ms T's name.

An affordability assessment was completed using Ms T's net monthly income of £1,103 and estimates for her rent of £514 and general living expenses of £413. AO says the estimates were obtained from nationally recognised statistics. AO reached the view Ms T had a disposable income of £142 a month after her existing outgoings were met. AO approved Ms T's application and a credit card with a limit of £1,000 was approved.

Ms T used the account until it was closed in default in 2022. Ms T's advised the account has since been sold to another business. More recently, Ms T complained that AO lent irresponsibly and it issued a final response. AO said it had carried out the relevant lending checks before approving Ms T's application and didn't agree it lent irresponsibly.

An investigator at this service looked at Ms T's complaint. They thought AO completed proportionate checks before approving Ms T's application and its decision to do so was reasonable based on the information it obtained. The investigator wasn't persuaded AO lent irresponsibly and didn't uphold Ms T's complaint.

Ms T asked to appeal and said AO's checks didn't reflect her actual outgoings which were significantly higher. Ms T also explained that, at the time, she was a single parent having recently given birth and was suffering with serious mental health difficulties. Ms T said the figures used by AO failed to take her childcare costs into account. As Ms T 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, the rules say AO had to complete reasonable and proportionate checks to ensure Ms T 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.

I've set out the information Ms T submitted in the application above. Ms T confirmed she had an annual income of £15,000 and AO used a net monthly figure of £1,103. I can see Ms T has sent us evidence she was in receipt of universal credit at the time, totalling £1,104 a month. So it appears to me that AO was using an accurate figure for Ms T's income when looking at her application. I understand Ms T's income was made up of benefits at the time, but lenders are allowed to use regular sources of income when deciding whether to approve an application and the lending rules don't exclude the use of benefit income. So I'm unable to say AO lent irresponsibly solely on the basis Ms T was receiving benefits at the time.

The credit search found no evidence of any outstanding credit. And no adverse credit or recent missed payments were recorded. So from AO's view, Ms T had no other credit commitments and no signs she'd previously experienced financial difficulties.

I understand Ms T's concern that estimates were used for her rent and general living expenses. Ms T has added that the figures used failed to take her dependant costs into account. Whilst I understand Ms T's outgoings may've been higher in reality, I think it's fair to note there's no evidence a dependant was declared on the application. As a result, no dependant costs were deducted from Ms T's income in the affordability assessment by AO. As I haven't seen evidence that shows AO was aware Ms T was a parent, I'm unable to agree it acted unfairly by focusing on her sole outgoings.

AO used a monthly rent figure of £514 and general living expenses of £413 as estimates when completing the affordability assessment. Lenders are allowed to use reasonable estimates for certain outgoings where appropriate. And I haven't seen anything here that shows the use of estimates for Ms T's application was unreasonable. As noted above, Ms T had no adverse credit, no outstanding debts and a verified net monthly income of £1,103. In my view, the use of estimates for Ms T's rent and general living expenses was reasonable in the circumstances of Ms T's complaint.

AO reached the view Ms T had a disposable income of around £142 a month after her existing outgoings and new credit card payments was met. In my view, that was a reasonable conclusion to reach following proportionate checks by AO. I think the information available shows Ms T was able to sustainably afford repayments to a new credit card with a limit of £1,000. And I'm satisfied the decision to approve Ms T's application was reasonable based on the information AO obtained.

Ms T has provided evidence that shows she was suffering with serious mental health difficulties around the time her application was made. I'd like to assure Ms T that I don't doubt what she's told us or that her circumstances were particularly difficult at the time. But I need to consider whether any vulnerabilities Ms T had would've been apparent to AO when her application was made. And, for broadly the same reasons I've noted above, I haven't seen any information that would've indicated to AO that Ms T was vulnerable or suffering with her mental health. I'm very sorry to disappoint Ms T but I haven't seen information that I think should've caused AO to take the view she was vulnerable when her application was received.

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 which says a court may make an order under Section 140 if it determines a relationship between the creditor and the debtor is unfair. The consumer is the debtor and Section 140 defines the creditor as "the person to whom his rights and duties under the agreement have passed by assignment or operation of law."

Where a debt has been sold, (as it has in this case) it follows that the debt purchaser is now the creditor for the purpose of the credit agreement. So a claim about an unfair relationship can't be brought by the consumer against the original lender as they are no longer the creditor.

I'm very sorry to disappoint Ms T but for the reasons I've given above I haven't been persuaded to uphold her complaint.

### **My final decision**

I'm very sorry to disappoint Ms T but for the reasons I've given above I haven't been persuaded to uphold her complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 24 March 2026.

Marco Manente  
**Ombudsman**