

complaint

Mr H complains that NewDay Ltd (t/a Aqua) acted irresponsibly when it increased the credit limit on his credit card.

background

Mr H had a credit card account with Aqua. In October 2017 Aqua increased the credit limit on Mr H's account from £600 to £1,500. It has provided a copy of a letter it sent to Mr H confirming, and giving him the opportunity to opt out of, the increase.

Mr H used the available credit and exceeded his new credit limit in December 2017. He then contacted Aqua to explain he was having difficulty making repayments and managing the new limit. Aqua has provided evidence it then provided a one-month payment holiday to assist Mr H. Mr H did not make any further payments to the account. He has said to our service that he was reluctant to do so while he was unhappy with the service provided by Aqua.

Mr H complained to Aqua that it had acted irresponsibly by increasing his credit limit as the new limit was unaffordable for him. He said the increase shouldn't have been granted and asked Aqua to write off the balance and remove any adverse information from his credit file.

Aqua said it had followed its processes and was confident it had acted responsibly in providing the increase in the credit limit. Unhappy with this response Mr H asked our service to look into the complaint. In the meantime, as no further payments were made to the account, Aqua sold it to a third party.

An investigator looked into the complaint and thought it should be upheld in part. He felt the information provided suggested Aqua hadn't done enough to check that the credit limit increase was affordable to Mr H. So he recommended that it refund any interest or fees incurred as a result of the increase as well as paying Mr H £100 for the upset caused.

The investigator didn't though think it was reasonable to ask that Aqua write off the balance in full as Mr H had had the benefit of the funds. He also didn't think he could reasonably ask it to change any of the information reported to credit reference agencies as it was an accurate reflection of what had happened on the account – as Mr H had acknowledged he'd not made payments.

Mr H said he accepted the investigators recommendations. Aqua did not agree with his findings. It said it had based its decision on the information it had available and doesn't exclude customers from increases if it doesn't have up to date details of their income and expenditure. It also said it didn't think it was fair for it to be scrutinised for providing further credit when Mr H had not contacted it for a significant amount of time to discuss repayment. As a result, the complaint has been passed to me to make a final decision on the matter.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so I find I've reached largely the same conclusions as the investigator.

Lenders must lend responsibly. This means that, before they lend to someone, they should check the customer can afford to pay back money they borrow in a sustainable way.

Aqua has acknowledged that it did not review or request updated income and expenditure details for Mr H before providing the increased level of borrowing.

Aqua increased Mr H's credit limit from £600 to £1,500 – so an increase in permitted borrowing of 150%. Given the level of the increase, without knowing how much Mr H was receiving each month and how much committed expenditure he now had, I don't think Aqua could determine that he would be able to afford to repay this sustainably.

Aqua says it based its decision on how Mr H had managed his Aqua account and information from credit reference agencies about how he'd managed other borrowing. Neither of these are enough in my opinion to show that Mr H *could* afford to make repayments if the credit limit was increased. Knowledge of how accounts had been managed may indicate whether Mr H had been able to make repayments. But not whether they were affordable in the longer term, what compromises Mr H may've had to make elsewhere in order to make those repayments or if he could afford to pay more.

In addition, the information provided by Aqua about how Mr H had managed his account shows that in two of the four months before the increase, Mr H had exceeded his existing agreed credit limit. Although he'd then made partial repayments to the account, it does indicate that Mr H may already have been struggling to manage his account.

Mr H has also provided us a copy of his credit file. This shows that at the time of the limit increase, while he was up to date with payments on some of his accounts, he also had more than one account with a default status. It also shows he had recent county court judgements. And there was information showing he'd made regular use of short term loans in the run up to the credit limit increase. Again I think this suggested Mr H may've been having trouble managing his finances and that allowing further borrowing could potentially make the situation worse.

Aqua has said it gave Mr H the opportunity to opt out of the credit limit increase. But giving this option doesn't excuse or allow a business to lend in an unaffordable way. As I've said businesses have a duty to lend responsibly. In Aqua's response to the investigators view it also said it shouldn't be scrutinised for this decision when Mr H has not contacted it to discuss repayments. But again what has happened since the lending decision does not excuse Aqua of its responsibility. Nor does it mean that Mr H can't complain or that our service can't or shouldn't consider whether the lending decision itself was reasonable.

Based on everything I've seen, I don't think Aqua did enough at the time of granting the credit limit increase to check that this was affordable to Mr H. And based on the information available, I think the additional lending was unaffordable. So I think Aqua needs to do something to put this right.

Mr H has had the use of the credit. So like the investigator I don't think it'd be reasonable to say the additional borrowing should be written off in full. But I do think the costs incurred associated with the additional borrowing should be refunded. The decision to grant the additional borrowing has also contributed to the difficulty Mr H has encountered managing his accounts. And I don't doubt this was stressful for him. So I also think it would be reasonable for Aqua to pay him some compensation to address this.

In terms of the information recorded on Mr H's credit file – businesses are required to report information that accurately reflects what has happened. Mr H has admitted that he did not make repayments to the account while the complaint was ongoing, largely because he was unhappy. I understand Mr H's motivation but even though the dispute was ongoing, monthly payments were due on the account. They were due before the credit limit was increased so the dispute over this didn't negate the need for them to be made. As a result I don't think it would be reasonable for me to ask Aqua to ask credit reference agencies to amend the adverse information recorded in respect of this account.

my final decision

For the reasons given above my decision is that I uphold Mr H's complaint in part.

To put things right NewDay Ltd (t/a Aqua) should;

- refund all interest, fees and charges incurred as a result of the credit limit being increased from £600 to £1,500. Aqua sold the outstanding balance on this account to a third party. So it either needs to buy the account back from the third party and make the necessary adjustments, pay an amount to the third party in order for it to make the necessary adjustments, or pay Mr H an amount equivalent to the reduction needed on the outstanding balance.
- pay Mr H £100 for the distress caused.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr H to accept or reject my decision before 29 February 2020.

Ben Stoker
ombudsman