

## **complaint**

Miss G says NewDay Ltd (trading as Aqua) acted irresponsibly when they gave her a credit card in 2012 and kept increasing her credit limit.

## **background**

Miss G applied for her credit card in August 2012 and the account was opened with a credit limit of £500. Over the next four years NewDay offered Miss G a total of eight credit card limit increases. By April 2016 her credit card limit was £8,000.

Miss G says she had a high amount of unsecured debt when she applied for her credit card and didn't have the means to repay it. She says by giving her another credit card and increasing her credit card limit regularly NewDay contributed to her financial difficulties. She says they had a responsibility to make sure the lending was affordable and if they had done proper checks, NewDay should have realised that she was in a difficult financial situation.

NewDay say they did a credit check on Miss G before they gave her a credit card and she wasn't in any arrears on her other credit cards. Her credit file showed no defaults or county court judgements (CCJs). They also considered Miss G's salary and their internal lending criteria. NewDay pointed out that they only gave Miss G a very low credit limit of £500.

NewDay say that before offering any credit limit increase they reviewed Miss G's account. She was making regular payments and managed her account well. They say Miss G had the option to decline the credit limit increase offers if she didn't want them.

Miss G went over her limit in 2017 and from that point on NewDay didn't offer her any increases. They say Miss G never asked them for help or advice. NewDay didn't uphold Miss G's complaint but refunded one over limit fee of £12 as a gesture of goodwill.

Our investigator thought Miss G's complaint shouldn't be upheld. Miss G disagreed so the complaint was passed to me for a decision.

I've issued a provisional decision upholding Miss G's complaint in part. I invited further comments from both parties. NewDay didn't provide any further comments. Miss G accepted my decision.

## **my findings**

I've re-considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. As I had no further comments to consider the outcome of my decision remains the same.

I'm upholding Miss G's complaint in part. I've repeated my reasoning again below.

I firstly looked at whether NewDay should have given the credit card to Miss G in 2012. I appreciate Miss G had a large amount of debt at the time and she feels NewDay shouldn't have given her the card at all. However, I have to take into account that NewDay lends to customers who often try to rebuild their credit history or wouldn't receive a credit card elsewhere. Miss G had a salary of £33,000 and the credit limit at the time was only £500. So on balance I think it wasn't inappropriate to give her the credit card.

I then looked at the credit limit increases that followed. I appreciate that NewDay gave Miss G the option to decline the increases. But I think it's easy to see how someone in a difficult financial situation might be unable to make the right decisions. It's the lender's responsibility to check their customer's ability to repay and their overall creditworthiness before offering an increase. And an increase shouldn't be offered if a customer is showing signs of financial difficulties.

NewDay say they checked Miss G's credit file when they gave her the card. They also considered extracts from a credit reference agency and reviewed Miss G's account before offering a limit increase. I'm satisfied that NewDay did some checks before increasing Miss G's credit limit. However, based on the information they likely would have had, I can't see that the increases were responsible. The UK Cards Association best practice guidelines about credit limit increases sets out risk indicators which might show lenders that their customer has financial difficulties. And I think NewDay should have spotted a couple of these risk indicators in Miss G's case.

She used her limit to the maximum but only made minimal repayments. And in the first five months of having the card she also used eight cash advances (£570 in total). Although I think giving Miss G a card with a low limit wasn't unreasonable I still would have expected NewDay to take into account the information they collected about her during her application and from their reviews before offering an increase. NewDay confirmed they knew in 2012 Miss G had around £50,000 in unsecured debt and that around £7,000 of this consisted of outstanding balances across eight credit cards. And they knew her salary was £33,000. So they would have known her debt to income ratio was fairly high as well.

I've seen a recent copy of Miss G's credit file and it shows that in 2012/2013 she was using all her credit cards to the maximum. And from other complaints Miss G brought to this service I also know that she was heavily using payday loans in 2012 and 2013. I don't know whether NewDay would have seen that some of the unsecured debt stemmed from payday loans. But I think the high outstanding balances on a large amount of credit cards (in addition to over £40,000 in unsecured loans) and the use of cash advances should have been warning signs that Miss G was struggling.

NewDay increased Miss G's limit from £500 to £750 just after five months in February 2013. Although I think risk indicators like using cash advances were already evident at that point, the increase was fairly modest and so it can be argued that this first increase was still within reasonable limits.

However, I don't think this can be said for the second increase from £750 to £1,250 just 3 months later in May 2013. The increase this time was higher and the accumulated outstanding credit card balances on Miss G's other credit card had risen to over £10,000 by that point. I think the cash advances on her Aqua card and using her new limit of £750 three months earlier as soon as she was granted the increase should have been enough for NewDay to realise Miss G was using this card in similar ways to her other cards. Miss G has told us that it was around this time her financial troubles got worse and I've seen that between February and May 2013 she took out two pay day loans worth £2,500 with one lender alone.

So based on everything I've seen I think the second increase to £1,250 wasn't responsible anymore. Before another increase I would have expected NewDay to ask Miss G further questions about her situation and/or do an income-expenditure assessment. Miss G told us that in 2013 she had a net income of £1,800 per month (she provided a payslip) and that

debt repayments alone per month were £1,300 (which seems plausible from the amount of debt I've seen). She had a dependent child and says her outgoings for food, clothes, rent, household bills and transport were around £900. I don't have any reason to disbelieve these numbers. So if NewDay had asked further questions, I think they would have found that giving Miss G further lending wasn't appropriate in her situation.

For these reasons I think NewDay shouldn't have offered Miss G an increase to £1,250 in May 2013 or any subsequent increases.

### **putting things right**

To put things right NewDay should:

- Refund all over limit charges applied after May 2013
- Refund all interest applied on balances over £750 from May 2013
- Remove any adverse information on Miss G's credit file relating to this account from May 2013 onwards.
- Review possibilities of an affordable repayment plan on the new outstanding balance
- All refunds can be used to reduce Miss G's outstanding balance. I think it's unlikely that after the refunds are applied Miss G will have a positive credit card balance. But in the event she does, NewDay should pay the positive balance to her and apply 8% simple interest from the day the account would have gone positive until the day of settlement.

### **my final decision**

For the reasons I explained I'm upholding Miss G's complaint in part. I request NewDay Ltd to pay the compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 7 February 2019.

Nina Walter  
**ombudsman**