

complaint

Mrs N complains that NewDay Ltd irresponsibly lent to her in allowing her a credit card when she was struggling with other debts. She would like them to refund all interest and charges and remove any negative information from her credit file.

background

In September 2015, Mrs D applied for and was approved for a credit card from NewDay trading as Aqua. The credit limit was £300.

On 2 December 2015, Aqua wrote to Mrs D offering to increase her limit to £900. The letter allowed her to opt out of this increase if she wanted to. Mrs D didn't opt out and her credit was extended by a further £600. Since then, she has been close to or over her credit limit.

Mrs D complained to NewDay that they had irresponsibly lent to her.

NewDay wrote their final response letter on 19 December 2018. They didn't think that they had irresponsibly lent to Mrs D. They felt that they had carried out the proper checks when they first offered her the credit card and again when they offered her the credit limit increase.

Mrs D didn't agree so she came to us.

Our investigator found that NewDay hadn't irresponsibly lent to Mrs D. He thought that they were right to have given her a credit card with a limit of £300. This was affordable. But, when they increased the limit by a further £600, he thought that it wasn't affordable for Mrs D and that NewDay should've known she was struggling with managing her account as she had gone over her credit limit twice in the three months that she'd had the credit card. Also, she had other debts.

He thought that NewDay should:

- refund all interest and charges from the date of the new credit limit in December 2018;
- pay Mrs D 8% simple interest from the date on the limit increase to the date of settlement;
- arrange a payment plan so Mrs D could repay the £600 additional borrowing that she'd had the use of without incurring charges or interest;
- revert the credit card to the £300 limit to be run within NewDay's usual terms and conditions.

NewDay weren't happy with this decision so it has now come to me.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I'm afraid that NewDay won't be happy with my decision. I think the investigator has made the right decision. I will explain why.

I've considered the checks that NewDay carried out when they first approved Mrs D for the credit card. I think that these were sufficient and they were right to set the limit for credit at £300. Mrs D had other debts but she was managing these.

I think that NewDay didn't properly consider how Mrs D was managing her account when they increased her credit limit to £900. This was quite a substantial increase.

The investigator applied the Financial Conduct Authority Handbook (the Handbook). In particular, he said:

"The handbook sets out at CONC 6.2.1 to 3 what a firm must consider when significantly increasing a credit limit. The primary requirement is that the provider of credit must undertake an assessment of credit worthiness. To achieve this they should consider the potential for the rise in credit limit to adversely impact the customer's financial situation as well as the ability to make repayments over the life of the regulated agreement."

NewDay say that they have built their own assessment based on the principles articulated in CONC. They say that, although Mrs D had gone over her credit limit for two months out of the last three before the limit was extended, she had still managed to make more than her minimum payments. Also, Mrs D's pay day loans hadn't been defaulted in the last 12 months. Nor had they been in arrears in the last 6 months.

Whilst I accept that this was the case, I still don't think that NewDay properly considered the affordability of the credit increase. I think that NewDay shouldn't have considered that Mrs D was managing her account. She had been over her credit limit for two out of the three months that she had had the credit card. This wasn't a good sign.

Additionally, she had other loans that were relatively large. I think that these weren't properly considered by NewDay in deciding to increase her credit limit.

I note that Mrs D had the choice of opting out of the credit increase. I don't think that this is relevant because I don't think that it should've been offered to Mrs D in the first place.

I think that the increase in the credit limit was unaffordable for Mrs D.

my final decision

For the reasons given above, I require NewDay Ltd to:

- refund all interest and charges from the date of the new credit limit in December 2018;
- pay Mrs D 8% simple interest from the date on the limit increase to the date of settlement;
- arrange a payment plan so Mrs D can repay the £600 additional borrowing that she's had the use of without incurring charges or interest;
- revert the credit card to the £300 limit to be run within NewDay's usual terms and conditions.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 6 July 2019.

Rita Parmar
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