

Complaint

Mr C complains that NewDay Ltd (trading as Aqua) lent irresponsibly when it approved his credit card application and later increased his credit limit.

Background

Mr C applied for an Aqua credit card and was approved for a £250 credit limit in September 2012. In December 2012 Mr C asked Aqua to increase the credit limit. His request was approved and the limit was set to £600.

In October 2014 Mr C's limit was increased to £1,200. Aqua says it wrote to Mr C and offered him the chance to reject the increase before it was applied. The credit limit was increased to £2,100 in June 2016. Aqua says it offered Mr C the chance to turn the increase down.

In 2018 Mr C complained that Aqua had lent irresponsibly. He said it should have been clear the credit card debt wasn't sustainable as he had a large amount of unsecured credit and payday loans. Mr C said it should have been clear he was experiencing financial difficulties and reliant on credit. Aqua didn't uphold Mr C's complaint and said his application and limit increases had been approved in line with its lending criteria.

Mr C referred his complaint to our service and an investigator looked at what had happened. She didn't agree that the initial decisions to approve Mr C's credit card or the first limit increase to £600 were irresponsible. But she upheld Mr C's complaint about the two later limit increases and said Aqua lent irresponsibly. Aqua didn't accept and reiterated that the limit increases had met its lending criteria. Mr C responded to say he accepted the investigator's view. As Aqua didn't agree the complaint has been passed to me to make a decision.

My findings

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

Like the investigator, I haven't found that Aqua lent irresponsibly when it approved Mr C's credit card application and gave him a £250 limit in 2012. Whilst I can see Mr C had a reasonably large amount of unsecured credit, the initial limit was fairly low. In addition, there doesn't appear to have been any adverse information on Mr C's credit file. Aqua also asked Mr C about his personal circumstances and income before deciding whether to proceed. Taking everything Aqua knew about Mr C into account, I think its decision to proceed was reasonable.

In December 2012 Aqua agreed to increase Mr C's limit to £600. Like the initial application, I think the decision to approve the limit increase to £600 was reasonable based on what Aqua knew. The limit was still reasonably low and I'm satisfied Aqua looked at Mr C's credit file as well as the information it held about him to check whether the increase was. I think Aqua's decision was reasonable.

I have concerns over the last two credit limit increases Aqua approved. In October 2014 Aqua doubled the credit limit from £600 to £1,200. But Mr C's credit file shows he was having trouble managing his other unsecured credit at this time and was often over his credit limits. Mr C also had a lot of payday loans in the run up to Aqua's decision to increase his limit.

Aqua is free to decide how to set its lending criteria but it should complete proportionate checks to ensure borrowing is sustainable. In this case, I don't think the checks Aqua completed went far enough. I understand that Aqua may not have had full details of Mr C's other credit at this time because of the nature of the credit checks it completed. But it could have taken other approaches, like asking to see his full credit file or completing an income and expenditure assessment for example. Taking everything I've seen into account, I don't think the decision to approve the increase to £1,200 in October 2014 was reasonable. If Aqua had completed better checks I don't think it would have approved the limit increase.

As I think the limit increase to £1,200 was irresponsible, it follows the subsequent increase to £2,100 was irresponsible as well. Again, I've looked at the information Aqua had available as well as the types of questions it could have asked.

I note that in response to the investigator Aqua said its policy is not to approve a limit increase if an over limit fee had been charged in the preceding three months. But Mr C's file shows he was charged over limit fees in two out of the four months immediately preceding this limit increase. I can also see that Mr C was charged a cash advance fee in the month before the increase. Whilst cash advances aren't always a sign of financial difficulty, they can be an indicator. And I also note that Aqua had a fuller picture of Mr C's unsecured credit at this stage. Taking all these points together, I don't think Aqua's decision to approve this increase was reasonable either.

From what I've seen, I think Aqua failed to complete proportionate checks to ensure the borrowing it approved was sustainable. I think it's likely that if Aqua had done better checks it wouldn't have offered Mr C either the October 2014 £1,200 limit or the subsequent increase to £2,100 in June 2016. As a result, I agree this complaint should be upheld.

My final decision

My decision is that I uphold this complaint and direct NewDay Ltd to settle in line with following:

- Refund all over limit charges applied after October 2014
- Refund all interest applied to balances over £1,200 since October 2014
- Remove any adverse information from Mr C's credit file from October 2014
- Refunds can be applied to reduce the outstanding balance. In the event of a surplus balance, Aqua should pay this directly to Mr C and add 8% interest from the date the account moves into a positive balance to the date of settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 25 November 2019.

Marco Manente
ombudsman