

The complaint

In summary, Mr S has complained that NewDay Ltd trading as Aqua, irresponsibly provided him with a credit card and credit limit increases.

What happened

In January 2015, NewDay provided Mr S with a credit card. The initial credit limit was £600. In April 2015, the credit limit was increased to £1,500 and in November 2015 it was increased to £1,800. The initial interest rate on the card was an APR of 29.7%.

In its response to Mr S's complaint, NewDay explained why it thought the credit card was affordable when it was first approved. It also thought the limit increase in April 2015 was also affordable. But it didn't think the limit increase in November 2015 should have been provided. And as a result, it upheld his complaint in part.

Mr S's concerns were reviewed by one of our investigators. He explained that he thought the checks NewDay had carried out were proportionate when the card was taken out and the credit limit increased. And he didn't think the limit increase in April 2015 was provided irresponsibly. He thought the refund in respect of the November credit limit increase had been carried out correctly. But he thought that in addition, NewDay needed to remove any adverse data in relation to the November 2015 credit limit increase and pay Mr S £100 for the upset he had been caused.

In response, NewDay explained why it disagreed with the investigator's recommendations. It didn't think negative data from 2015 should be removed.

As NewDay didn't agree with the investigator's assessment of the complaint, it has been passed to me to review.

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.

We've set out our approach to considering unaffordable and irresponsible lending complaints on our website - including the key relevant rules, guidance, good industry practice and law. And I've considered this approach when deciding Mr S's complaint.

Having done so, I've decided to uphold Mr S's complaint. I'll explain why.

There are several questions that I've thought about when deciding if NewDay treated Mr S fairly and reasonably when it provided him with the credit card.

- 1) Did NewDay complete reasonable and proportionate checks to satisfy itself that Mr S would be able to repay his credit card account in a sustainable way?

- 2) If not, what would reasonable and proportionate checks have shown at the time?
- 3) Ultimately, did NewDay make a fair lending decision?
- 4) Did NewDay act unfairly or unreasonably in some other way?

Did NewDay complete reasonable and proportionate checks to satisfy itself that Mr S would be able to repay the credit provided to him in a sustainable way?

The rules that NewDay had to follow, required it to carry out checks that would enable it to reasonably assess, whether Mr S could afford to repay the credit card he was wanting to take out. This is often referred to as an “*affordability assessment*”.

The rules don’t set out what specific checks it needed to carry out, but they did set out that those checks needed to be proportionate to the circumstances of the application. I think what this meant in practice, was that the scope and extent of NewDay’s checks needed to take into account things such as the amount of credit being provided, the interest rate, Mr S’s financial circumstances and any indications of customer vulnerability.

The checks NewDay needed to carry as part of its affordability assessment, had to be “*borrower focussed*”. What I mean by this, is that the checks needed to consider whether paying back the credit would cause Mr S any difficulties or have any adverse consequences for him. They would also need to take account of factors such as the amount of credit being provided, the interest applied on the credit card account, the monthly repayments and the total charge for the credit. This isn’t an exhaustive list.

And because of the above, I think reasonable and proportionate checks needed to be more thorough if Mr S had a low income. This would reflect that it could be more difficult for him to make the loan repayments with a low income.

NewDay would also need to be more thorough with its checks if Mr S was on a lower income as it could more difficult to make monthly repayments on a low income.

With these principles in mind I’ve thought about whether NewDay completed reasonable and proportionate checks to satisfy itself that Mr S would be able to make repayments on his credit card account in a sustainable way.

In summary then, the circumstances of the credit card application are as follows:

- Mr S was applying for a credit card which had an APR of 29.7%.
- Mr S was recorded by NewDay as having a gross annual income of approximately £40,000 a year when the card was taken out.
- The initial credit limit was £600 which was then increased to £1,500 and £1,800.

NewDay has said it did carry out some checks prior to approving Mr S’s credit application towards the end of January 2015. This seems to have been based on Mr S’s completed application form which included information about his income and carrying out a credit search. From the information I have it looks like the information NewDay obtained that Mr S had no outstanding CCJs or previously defaulted debt, hadn’t any active pay day loans and no accounts that were in arrears.

The initial credit provided was relatively modest taking into account the information NewDay had about Mr S. And I think in the context of the amount of credit being offered, Mr S’s financial circumstances and the information NewDay had from the checks it carried out, I believe NewDay’s checks were reasonable and proportionate. And that based on the

information it had, it wasn't unreasonable for it to conclude that Mr S would be able to sustainably afford to repay the credit.

I've also considered the subsequent limit increases. A few months later in April 2015, the credit limit was increased to £1,500. This was a significant increase on the original credit limit provided. This was a very short time after the initial credit had been provided. And it looks like NewDay obtained similar information to that which it had obtained in the January. This showed that Mr S had been managing his account within his credit limit with no arrears. He had total credit balances of just over £500. So, I don't think it was unreasonable based on the further information NewDay obtained and taking into account Mr S's management of the account for NewDay to have increased his credit limit in April 2015.

NewDay accepts that it shouldn't have increased the credit limit again in November 2015. So, I don't need to make any findings in respect of liability regarding that credit limit increase.

I've considered the details of the loss calculation provided by NewDay. I'm satisfied from the information provided to me that it has been carried out in line with this service's approach to redress for cases such as this. But I don't agree with its arguments in respect of the correction of Mr S's credit file.

NewDay accepts that Mr S shouldn't have been provided with the increased credit limit in November 2015. And he only had the increased credit limit as a result of NewDay providing him with that additional credit. It's not clear if his increased spending was sustainable from other funds that he might have had. And it's possible that his spending from that point may have been supported from other borrowing. So, I see no reason to depart from our recognised approach to compensation in this case.

Putting things right

In addition to the compensation payments it has made to Mr S's credit card account, NewDay should remove any adverse information from Mr S's credit file from November 2015 onwards in relation to the credit card account. NewDay should also pay Mr S £100 in respect of the distress and inconvenience he has been caused by NewDay increasing his credit limit when it shouldn't have.

My final decision

For the reasons I've set out above, my decision is to uphold Mr S's complaint about NewDay Ltd. In addition to the compensation it has already paid, if Mr S accepts my decision; it needs to compensate Mr S by doing what I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 1 June 2022.

Simon Dibble
Ombudsman