

The complaint

Miss H says Valour Finance Limited (trading as Savvy.co.uk) irresponsibly lent to her.

What happened

This complaint is about one instalment loan Savvy provided to Miss H in July 2019. The loan was for £500 and was to be repaid in 12 monthly instalments of £83.33. Savvy said Miss H didn't pay any instalments and the loan defaulted in October 2019.

Our adjudicator upheld Miss H's complaint in part. He couldn't say that the loan shouldn't have been given. But he thought Savvy hadn't given Miss H a chance to address her arrears following the outcome of her complaint. So he thought it should remove the default notice and discuss a payment plan with Miss H.

Savvy disagreed. It said it had already given Miss H considerable forbearance and she'd had time to repay the arrears or discuss a repayment plan before it applied the default. Miss H said that Savvy should have made better affordability checks and these would have shown her other short-term loans and poor financial position. And so the complaint was passed to me for a final decision.

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 general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Savvy needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss H could repay the loan in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Savvy should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated

refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Savvy was required to establish whether Miss H could sustainably repay her loan – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss H's complaint.

Savvy asked Miss H for information about her income and expenditure and it carried out credit checks. Miss H said her monthly income was £1,250. She said her monthly expenditure was £701.41. This left Miss H with £465.26 disposable income to meet her monthly repayments of £83.33. Savvy asked Miss H about her other short-term lending, but she didn't disclose any. Savvy's credit checks found some minor arrears on Miss H's credit card which she explained.

Miss H said Savvy should have seen her other short-term loans and poor credit history. But she'd told Savvy that she didn't have any other short-term loans. I can't see that Savvy's credit checks found anything untoward that should have prompted further checks. There's no requirement for Savvy to have checked Miss H's credit file thoroughly. This was Miss H's first loan, so Savvy didn't have a repayment history to consider. So I think these were sufficient and proportionate affordability checks for Miss H's first loan from Savvy.

Given the loan amount, what was apparent about Miss H's circumstances at the time and her history with Savvy, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Miss H provided or the information Savvy should've been aware of, which meant it would've been proportionate to start verifying what Miss H was saying. From the information Miss H provided, it looked as though she could afford her loan repayments. So I can't say that it was wrong for Savvy to have provided the loan.

Miss H didn't make any instalment repayments. When a consumer raises concerns about financial difficulties, as I think Miss H did, we expect the business to respond positively and sympathetically. I can see that in its arrears notices Savvy offered to set up an affordable repayment plan and referred Miss H to debt management charities. I think that was fair and reasonable.

Savvy said Miss H hadn't responded to its arrears notices. But I can see in its file that Miss H had replied to its letters. Initially Miss H didn't agree to make any repayments as she was awaiting the outcome of her complaint. But she did write to Savvy offering to make reduced repayments to clear the debt. I can't see that Savvy responded to this. I think Miss H had explained that she was willing to make repayment arrangements once her complaint had been investigated. But Savvy issued a default notice the same day it sent its response to Miss H's complaint and before she'd had a chance to bring her complaint to us.

So I agree with the adjudicator that Savvy issued its default notice prematurely before Miss H had a reasonable chance to respond to its investigation of her complaint and to set up an arrangement to pay.

Putting things right

To put things right for Miss H, I think Savvy should cancel the default notice on Miss H's credit file and discuss with her an affordable repayment plan to clear her arrears.

My final decision

For the reasons given above, I'm partially upholding Miss H's complaint. I require Valour Finance Limited (trading as Savvy.co.uk) to carry out the requirements set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 5 July 2020.

Phillip Berechree
Ombudsman