DRN-1474280

The complaint

Mr W says Valour Finance Limited, trading as Savvy.co.uk ("Savvy"), irresponsibly lent to him. Mr W says the lending was unaffordable for him, and he got into financial hardship which led to a cycle of debt.

What happened

This complaint is about two instalments loans Savvy provided to Mr W between December 2014 and June 2015. Mr W's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	29/12/2014	23/03/2015	12	£600.00	£100.00
2	24/06/2015	05/02/2016	12	£500.00	£83.37

Our adjudicator partially upheld Mr W's complaint and thought loan two shouldn't have been given as there was evidence that Mr W was having problems managing his money.

Savvy disagreed with the adjudicator. It said it didn't have a copy of Mr L's bank statements, he had repaid loan one early, the lending was affordable and when Mr L made it aware he was in financial difficulty it wrote off £166. 64 of interest on loan two.

Savvy's comments didn't alter our adjudicator's opinion. As the complaint remains unresolved, it has been passed to me for 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 Mr W could repay the loans 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 consumer'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 Mr W could sustainably repay his loans – 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 relevant regulations define 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.

Mr W didn't comment on the adjudicator's opinion that loan one shouldn't be upheld. Because of this, I don't think there is any ongoing disagreement about this loan. So, I won't be making a decision about this lending. But the loan was part of the borrowing relationship Mr W had with Savvy. So, it is something I will take into account when considering the other loan he took.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr W's complaint. After doing so, I've decided to uphold the complaint in part. I'll explain why.

Savvy has been able to give us a copy of a phone recording for Mr W's application for loan two. During that call Savvy's representative asked about any other outstanding debts. Mr W confirmed he was using other short-term credit providers and wanted to consolidate that lending. The representative also asked about a loan for £2,500 taken in April which Mr W said was for some emergency payments. Mr W confirmed that he had come to an arrangement on his credit card where there were some missed repayments because of unexpected childcare costs.

All the above suggests that Mr W was having problems managing his money and his bank statement confirms he was using other short-term credit providers. I appreciate Mr W told Savvy's representative that he was going to use his loan with Savvy to consolidate his other borrowing. But like the adjudicator I don't agree that this type of short-term high-cost credit should be used to consolidate current borrowing. So, I don't think Savvy should have agreed to lend Mr W loan two because of his declared financial difficulties.

Savvy has told us that loan one was repaid before the agreed term and that the lending was affordable for Mr W. But by repaying a loan early can also be a sign that someone is juggling their finances in order to make ends meet. And Mr W's borrowing from other short-term credit providers would indicate this was the case. I think the lending was potentially unsustainable for Mr W – which proved to be the case.

So, like the adjudicator, I'm also upholding the complaint about loan two and Savvy should put things right.

Putting things right – what Savvy needs to do

A. Savvy should add together the total of the repayments made by Mr W towards interest, fees and charges on loan two, including payments to a third party where application, but not including anything Savvy has already refunded.

B. Savvy should calculate 8% simple interest* on the individual payments made by Mr W which were considered as part of "A", calculated from the date Mr W originally made the payments, to the date the complaint is settled.

C. Savvy should pay Mr W the total of "A" plus "B".

D. Savvy should remove any adverse information recorded on Mr W's credit file in relation to loan two.

* HM Revenue & Customs requires Savvy to take off tax from this interest. Savvy must give Mr W a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I'm partially upholding Mr W's complaint. Valour Finance Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 18 August 2020.

Catherine Langley
Ombudsman