DRN-1886671

The complaint

Mr F says Valour Finance Limited – trading as Savvy.co.uk ("Savvy") - irresponsibly lent to him.

What happened

This complaint is about two instalment loans Savvy provided to Mr F between March and May 2019. Both loans were for £750 and repayable over 15 months. The monthly repayments were for £100. Mr F's second loan is currently outstanding.

In the most recent assessment, our adjudicator upheld Mr F's complaint and thought the loans shouldn't have been given because Mr F was having problems managing his money.

Savvy disagreed and said Mr F had enough disposable income to pay for the loans. As the complaint couldn't be resolved informally it has been passed to me.

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 F could repay the loans in a sustainable manner. These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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 F 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 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 the arguments, evidence and information provided in this context and what this all means for Mr F's complaint. Having done this, I'm upholding Mr F's complaint. I'll explain why.

I think Savvy ought to have realised that Mr F wouldn't have been able to make the repayments for his loan sustainably without taking out more lending. I can see Savvy did income/expenditure and credit checks on Mr F before it lent to him. And I can see that Savvy has provided to us its findings from those checks, including a copy of the telephone call recording between it and Mr F. But given the length of time Mr F was committing to borrowing for, I think Savvy should have been looking to build a clearer picture than it did about Mr F's finances before lending either loan to him.

Had Savvy carried out proportionate checks before lending these loans, it's likely to have found – on both occasions – Mr F was borrowing from other short-term lenders. As well as this additional borrowing, further checks would have shown that at the time of both loans, Mr F was spending a significant portion of his income on on-line gambling websites and was clearly having problems because of that.

Such financial behaviour should have caused Savvy to question whether Mr F making loan repayments was sustainable and whether it should have continued to lend to him.

So I'm upholding Mr F's complaint and Savvy should put things right.

Putting things right

If Savvy has sold the outstanding debt Savvy should buy this back if Savvy is able to do so and then take the following steps. If Savvy can't buy the debt back, then Savvy should liaise with the new debt owner to achieve the results outlined below.

A) Savvy should add together the total of the repayments made by Mr F towards interest, fees and charges on the loan without an outstanding balance, not including anything Savvy has already refunded.

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

C) Savvy should remove all interest, fees and charges from the balance on the outstanding loan, and treat any repayments made by Mr F as though they had been repayments of the principal on the outstanding loan. If this results in Mr F having made overpayments then Savvy should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Savvy should then refund the amounts calculated in “A” and “B” and move to step “E”.

D) If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on the outstanding loan. If this results in a surplus, then the surplus should be paid to Mr F. However, if there is still an outstanding balance then Savvy should try to agree an affordable repayment plan with Mr F. Savvy shouldn’t pursue outstanding balances made up of principal Savvy has already written-off.

E) Savvy should remove any adverse information recorded on Mr F’s credit file in relation to the loans.

† HM Revenue & Customs requires Valour Finance Limited to take off tax from this interest. Valour Finance Limited must give Mr F 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 upholding Mr F’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 F to accept or reject my decision before 26 August 2020.

Claire Marchant-Williams
Ombudsman