DRN-1916432

**The complaint**

Mr A has complained about a number of loans he took out through a company called Valour Finance Limited, trading as Savvy.co.uk. Mr A says he was lent to irresponsibly and the loans caused him financial problems.

To keep things simple, I'll refer mainly to "Savvy".

**What happened**

We now know that Mr A took out 2 instalment loans from Savvy between December 2017 and August 2018. I've enclosed a summary of Mr A's borrowing with Savvy, based on the information it provided to us:

| Loan | Amount | Taken Out | Repaid | Instalments | Monthly Repayments |
|---|---|---|---|---|---|
| 1 | £750 | 08/12/2017 | 30/08/2017 | 13 | £115.14 |
| 2 | £1,000 | 30/08/2018 | 15/11/2019 | 16 | £123.72 |

One of our adjudicators looked into the complaint and said they thought it should be upheld from the point of loan number 2. Savvy doesn't agree, so the complaint has come to me for an ombudsman's 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. I've followed this approach when thinking about Mr A's complaint.

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 that Mr A could repay all the loans he was given in a sustainable manner. These checks ought to have taken into account a range of different factors, such as the amounts being lent, the total 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. However, certain factors might point to the fact that Savvy should have fairly and reasonably 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 or pattern of lending itself clearly demonstrates that the lending was unsustainable. So, Savvy was required to establish whether Mr A could sustainably repay the loans; not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan being affordable on this basis *might* be an indication that Mr A could sustainably make the repayments. But it doesn't automatically follow that 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. So, it follows that a lender should realise, or it ought to have fairly and reasonably realised, that a borrower won't be able to make their repayments sustainably if they are unlikely to be able to make them without borrowing further.

Savvy told us it carried out certain affordability and credit checks before agreeing to lend to Mr A. I've thought about this and I've also looked at the overall pattern of lending history with a view to seeing if there was a point at which Savvy should reasonably have seen that further lending was unsustainable, or otherwise harmful.

Bearing in mind what I've said above, about the length of the lending relationship, I think the checks which Savvy most likely carried out appear to have been proportionate for loan number 1. I think these levels of checks, together with the income and expenditure details provided by Mr A himself, would have made this particular loan appear affordable for him.

However, I think at the point of loan 2 things would have looked different and therefore required a more thorough and responsible approach. By loan 2, for example, Savvy already knew he was indebted elsewhere, to other short-term lenders. I accept there's a possibility that *all* the other short-term loans Mr A had in place at that time – we now know of at least 3 - wouldn't have yet showed up on the credit check Savvy carried out, mainly because they had only been taken out by him fairly recently. But I've listened to the sales call about loan 2 and at least 1 such outstanding loan was discussed.

I've also taken account that this was a high-interest loan designed mainly for the short-term. But Savvy extended the payments out to 16 months. No doubt this was to make the loan seem affordable, but it nevertheless caused Mr A to be indebted with very high charges for well over a year. In isolation, extending the term isn't necessarily wrong, but in my view it should have caused Savvy to carry out more comprehensive checks to ensure the loan was sustainable over that term. Further checks could have included, for example, verifying his disposable income and checking his bank statements. Had Savvy done this, it would have exposed the other lending and also that Mr A was regularly using on-line gambling sites to spend money. Accordingly, it would have shown he wasn't managing money very well and in a financially vulnerable situation. I don't think this would have made loan 2 look sustainable.

There's no evidence Savvy altered its approach at the point of loan 2 and we know that people in these situations do often have difficulties in paying back loans and are caused hardship by the charges and fees involved. I'm therefore upholding the complaint in relation to loan number 2.

**Putting things right**

- refund all interest and charges Mr A paid on loan 2;

- pay interest of 8% simple a year on any refunded interest and charges on this loan from the date it was paid (if they were) to the date of settlement†;
- remove any negative information about loan 2 from Mr A's credit file;

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

## My final decision

For the reasons given, I partly uphold Mr A's complaint. Valour Finance Limited should put things right for Mr A as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 27 August 2020.

Michael Campbell
**Ombudsman**