DRN-1971923

The complaint

Mrs B has complained that Greenlight Credit Ltd (trading as "Varooma") provided her with four unaffordable logbook loans.

What happened

Mrs B was provided with an initial logbook loan of £1,000 in January 2014. The loan had a 3 month term. Mrs B was then given a further three logbook loans over the following eleven months. Mrs B's borrowing history is as follows:

Loan	Amount	Date taken	Total to be repaid	Repayment	Term
1	£1,000	January 2014	£1,245.00	£212.50	3 months*
2	£1,000	March 2014	£1,242.00	£87.50	3 months*
3	£1,000	May 2014	£1,242.51	£101.25	3 months
4	£1,000	December 2014	£1,350.00	£301.39	6 months

* funds from loan two cleared balance on loan one and funds from loan three cleared balance on loan two

Our adjudicator looked at Mrs B's complaint and concluded Mrs B shouldn't have been provided loans two to four. So our adjudicator upheld Mrs B's complaint. Varooma disagreed and asked for an ombudsman's decision. As a result, the complaint has been 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 unaffordable and irresponsible lending complaints on our website and I've considered this when reaching my findings.

Having looked at everything, I think there are three overarching questions I need to consider in order to decide what's fair and reasonable in the circumstances of this complaint. These questions are:

- Did Varooma, each time it lent, complete reasonable and proportionate checks to satisfy itself that Mrs B would be able to repay her loan in a sustainable way?
    - If so, did it make a fair lending decision?
    - If not, would those checks have shown that Mrs B would've been able to do so?
- Bearing in mind the circumstances, at the time of each application, was there a point where Varooma ought reasonably to have realised it was increasing Mrs B's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further loans?
- Did Varooma act unfairly or unreasonably in some other way?

<u>Did Varooma, each time it lent, complete reasonable and proportionate checks to satisfy itself that Mrs B would be able to repay her loan in a sustainable way?</u>

Regulations in place when Varooma lent to Mrs B required it to carry out a reasonable assessment of whether Mrs B could afford to repay her loans in a sustainable manner. This is sometimes referred to as an "affordability assessment" or "affordability check". The affordability checks should've been "borrower-focused" – so Varooma had to think about whether repaying the loan sustainably would cause difficulties or adverse consequences *for Mrs B*. In other words, it wasn't enough for Varooma to think only about the likelihood that it would get its money back without considering the impact of repayment on Mrs B herself. The loans being secured on Mrs B's car didn't alter, lessen or dilute this obligation.

Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the borrower (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different loan applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- 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 *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period); and

- 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).

Were Varooma's checks reasonable and proportionate?

- Loan one

For loan one, Varooma appears to have gone through an income and expenditure declaration with Mrs B. As I understand it, Mrs B was recorded as having a monthly income of £2,200.00. Varooma says the income and expenditure information showed that Mrs B had a monthly disposable income which was sufficient to cover the monthly payments of £415.50. Varooma's response also appears to suggest that it had sight of Mrs B's bank statements, although it's unclear as to whether it did because it hasn't provided copies.

I've carefully thought about what Varooma did. And, in my view, a less detailed affordability assessment, without the need for verification, is far more likely to be fair, reasonable and proportionate in circumstances where the total amount to be repaid is relatively small, there isn't anything to suggest that they are struggling financially and they will be indebted for a relatively short period.

In this case, I'm mindful that this was Mrs B's first loan with Varooma, the term was relatively short and the monthly repayment required (as well as the total amount to be repaid) didn't seem unmanageable bearing in mind the income and expenditure declared by Mrs B. Given all of this, I'm satisfied that Varooma carried out reasonable and proportionate checks before providing loan 1 and in these circumstances it wasn't unreasonable for it to provide this loan to Mrs B.

- Loans 2, 3 and 4

As I understand it, Varooma asked Mrs B to supply evidence of her income when she applied for loan 2. Mrs B provided a copy of a payslip which showed that rather than earning £2,200 a month she was earning less than £900. And on top of this it was clear that Mrs B was using some of the funds from loan two to repay what she owed for loan one. So while the loan amount and term for loan two may have been similar to that for loan one, bearing in mind the discrepancies shown in relation to Mrs B's income, I don't think it was reasonable to proceed with the application on the information gathered.

I'm concerned that Varooma doesn't appear to have taken any steps to verify the expenditure information provided. Especially bearing in mind the high proportion of Mrs B's monthly income that would be taken up by the loan repayment and that verification of her income had shown the information provided was inaccurate. Varooma might have thought that it didn't need to do this and that a light touch check was proportionate because Mrs B's car provided security and she'd repaid loan one – albeit by borrowing further funds. But I don't think that this was enough to constitute a borrower focused assessment. And I don't see how this considers the impact of the repayments on Mrs B – especially in light of what, the corroboration regarding her income indicates an overoptimistic declaration of her disposable income.

As Varooma failed to verify Mrs B's actual monthly expenditure for loan two and the subsequent ones even though she kept coming back for further expensive loans, before repaying her previous ones, I don't think the checks it carried out before providing any of these loans were fair, reasonable or proportionate.

Would proportionate checks on Mrs B's loans have indicated to Varooma that she would have been unable to repay loans 2 to 4 in a sustainable manner?

I've already explained that I think a proportionate check for loan one would've involved actually verifying Mrs B's normal monthly outgoings and regular financial commitments. And as the lending continued, I would've expected Varooma to have found out more about why Mrs B kept having to come back for further loans despite what was being declared indicating she had no need for such expensive borrowing.

As Varooma didn't carry out proportionate checks for these loans, I can't say for sure what proportionate checks would most likely have shown. So I need to decide whether it is more likely than not that fair, reasonable and proportionate affordability checks would've told Varooma that it was unfair to offer these loans to Mrs B.

To help us understand for ourselves what Varooma would more likely than not have discovered if it had completed reasonable and proportionate checks on Mrs B's loans, we've looked at her financial circumstances at the time. Having carefully considered the information, I think that a detailed review of Mrs B's financial circumstances, would have shown that when her existing commitments alone were deducted from her monthly income, Mrs B had nowhere near enough funds to be able to sustainably repay loans 2, 3 and 4. And that's precisely the reason why she came back for loans 2 and 3 before she'd repaid what she owed on her previous loan.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mrs B would not have been able to make the loan repayments to loan two without undue difficulty or the need to borrow further. And, in these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted Varooma to the fact that Mrs B wouldn't be able to sustainably make the repayments to loan two.

<u>*Bearing in mind the circumstances, at the time of each application, was there a point where Varooma ought reasonably to have realised it was increasing Mrs B's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further loans?*</u>

For the sake of completeness, I think that it's also helpful for me to explain that even though I did do so, I don't think that it was necessary for me to look at recreated affordability checks for loans three and four. I say this because in addition to assessing the affordability of each *individual* loan provided to Mrs B by Varooma, I also think it's fair and reasonable to look at the *overall pattern* of lending.

I'm mindful here that the relevant rules and guidance make it clear that a lender shouldn't continue lending where the loans are unsustainable or otherwise harmful and/or it's apparent that the customer may be experiencing financial difficulties. And I think by loan three, Varooma ought fairly and reasonably to have realised that Mrs B's loans had become unsustainable or otherwise harmful. The factors that lead me to conclude that Varooma ought to have realised the loans from loan two were unsustainable or otherwise harmful are:

- the close proximity of these loans being taken out:
    - loan two was taken the day Mrs B made her final payment to loan one.
    - loan three was taken when Mrs B was due to make a payment to loan two.

- the total amount Mrs B owed Varooma increased from £1,245 (when she was provided with loan one) to £1,350 (when she was provided with loan four) this was a only a matter of months later and despite Mrs B having made some large repayments.

All of the above were clear indicators of Mrs B being in a difficult financial position. The overall pattern of lending, where Mrs B was advanced funds shortly after making payments suggests that Mrs B was having to borrow further funds to cover the hole left in her finances by making payments to these loans.

And bearing in mind Varooma's obligation to monitor Mrs B's repayment record and offer assistance should it appear that she might've been experiencing financial difficulties, I think that Varooma should've offered assistance and/or a product that would allow her to sustainably repay what she owed. But instead of doing this, Varooma instead kept lending at high rates of interest.

So I think that Varooma ought fairly and reasonably to have realised that the loans from loans three onwards were unsustainable or otherwise harmful for Mrs B and were unfairly and excessively increasing her overall indebtedness. And so it shouldn't have provided these loans to Mrs B.

<u>*Did Mrs B lose out as a result of Varooma's shortcomings in relation to these loans?*</u>

I think that Mrs B did suffer adverse consequences as a result of Varooma unfairly giving her these loans. I think this is the case for two key reasons.

Firstly, these loans had the effect of unfairly increasing and prolonging Mrs B's indebtedness to Varooma by allowing her to take expensive credit over an extended period of time. These loans were expensive. I've already spoken about the impact this had on her finances. And I think that the overall cost of these loans unfairly increased Mrs B's indebtedness when her finances were already at an adverse and precarious financial position.

Secondly, the number of these high-cost loans within such a short period of time is likely to have had implications for Mrs B's ability to access mainstream credit. The greater the presence of these loans on Mrs B's credit file – especially where they were taken so quickly - the less likely Mrs B was able to rehabilitate her finances and regain access to mainstream credit. This is especially the case when bearing in mind her other affordability issues.

In my view, Varooma giving Mrs B this many loans on such terms placed her in a position where she was unfairly trapped into taking further loans from Varooma as no-one else, other than similar providers, would lend to her. I think that, in these circumstances, Mrs B had little choice other than to keep turning to Varooma and other similar providers for further loans, because she had little other real choice bearing in mind everything that had gone on previously. And, in my view, Varooma took advantage of the situation.

So overall and having carefully thought about everything provided and what's fair and reasonable in the circumstances of this case, I think that Mrs B lost out because Varooma unfairly gave her these loans, which it ought to have realised were unsustainable, harmful and unaffordable for her.

Did Varooma act unfairly or unreasonably towards Mrs B in some other way?

Having carefully thought about everything provided, I've not seen anything to suggest that Varooma acted unfairly or unreasonably towards Mrs B in some other way.

Conclusions

Overall and having carefully thought about the three overarching questions, set out at the beginning of the My findings section of this decision, I find that:

- Varooma *didn't* complete reasonable and proportionate checks on Mrs B to satisfy itself that she was able to repay loans 2, 3 and 4 in a sustainable way;

- reasonable and proportionate checks would more likely than not have shown Varooma that Mrs B would not have been able to repay these loans in a sustainable way;

- in any event, the overall pattern of lending ought fairly and reasonably to have alerted Varooma to the fact that the loans from loans three onwards were unsustainable or otherwise harmful for Mrs B and that they were unfairly and excessively increasing her overall indebtedness;

- Mrs B lost out as a result of having been provided with these loans;

These findings lead me to conclude that Varooma unfairly and unreasonably provided Mrs B with loans 2, 3 and 4 and that she lost out as a result. So Varooma needs to put things right for Mrs B.

Putting things right

I think it would be fair and reasonable in all the circumstances of Mrs B's complaint for Varooma to put things right by:

- Refunding all interest fees and charges Mrs B paid on loans 2, 3 and 4;

- add interest at 8% per year simple on any refunded interest, fees and charges from the date they were paid by Mrs B to the date of settlement†;

- removing any adverse information placed on Mrs B's credit file because of loan two;

- removing all reference to loans three and four from Mrs B's credit file;

† HM Revenue & Customs requires Varooma to take off tax from this interest. Varooma must give Mrs B a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons given above, I'm upholding Mrs B's complaint about Greenlight Credit Ltd and telling it to pay Mrs B compensation as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 31 July 2020.

Jeshen Narayanan
Ombudsman