

## **The complaint**

Mr P complains that Valour Finance Limited trading as Savvy.co.uk acted irresponsibly when lending to him.

## **What happened**

In January 2019, Savvy loaned £1,250 to Mr P and he signed an agreement to repay this loan in fifteen monthly instalments. In the event, Mr P wasn't able to repay the loan as agreed.

Mr P feels that Savvy shouldn't have provided him with this loan. Mr P told us that if Savvy had done proper checks it would've seen that it wasn't likely to be affordable for him.

Our adjudicator upheld Mr P's complaint. She said that proportionate checks would most likely have shown Mr P was frequently relying on his overdraft facility, he'd been borrowing from other payday lenders and spending on gambling in the months running up to January 2019 when he applied to Savvy for this loan. Our adjudicator felt that taking all these things together into account, Savvy should've realised it was unlikely that Mr P would be able to repay the loan in a sustainable way.

So our adjudicator said Savvy shouldn't have provided the loan and she gave detailed directions setting out what she thought Savvy should do to put things right for Mr P.

It looks like Mr P is happy to accept the adjudicator's recommendation for settling this complaint.

Savvy disagreed with our adjudicator. It mainly said that it wasn't reasonable to reject a loan application just because someone had an overdraft at the bank. It told us that it did all the proper affordability checks, including asking Mr P some detailed extra questions over the phone. Savvy says the loan looked affordable for Mr P.

Savvy has asked for a review so the complaint comes to me to decide.

## **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've carried out proportionate checks to make sure Mr P 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 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.

Savvy was required to establish whether Mr P 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.

Taking all this into account, I've carefully considered all of the arguments, evidence and information provided and thought about what this all means for Mr P's complaint.

Savvy has told us about the checks it did before lending to Mr P. It asked him to provide details of his income and to tell Savvy what he normally spent each month. And Savvy also carried out checks on Mr P's credit file and asked him for some additional information about loans not reflected on his credit file. Mr P mentioned having one outstanding loan and so Savvy took this information into account. Savvy says it worked out that the loan it provided should've been affordable for Mr P.

Like our adjudicator, I don't agree it was reasonable for Savvy to provide this loan to Mr P. Here's why I say this.

Although the loan might've looked affordable on the figures Mr P gave and the information Savvy had gathered about his financial circumstances, I think that Savvy should've carried out more thorough checks into Mr P's financial situation before agreeing to lend such a substantial loan over this length of time.

I think Savvy should have taken steps to verify what Mr P was saying about his financial circumstances and not just relied on what he said. Savvy hasn't shown me it did this. So I can't fairly say that it carried out a proportionate check before agreeing to lend to Mr P.

Mr P has provided a credit report and some bank statements so I've looked through these to see what Savvy was likely to have found out as I think these give a reasonable picture of Mr P's finances at the time. And had Savvy looked in more depth at Mr P's finances it would likely have seen that he was facing serious problems managing his money. As well as having at least one currently outstanding short-term loan already, I think it would have also learned that in fact Mr P had an established record of taking out short term high cost loans with other lenders of this sort of credit. He was substantially overdrawn at the bank (and had been for a while). And he was regularly spending significant amounts on what appeared to be gambling transactions.

I've taken into account everything Savvy has said in response to our adjudicator's opinion, but this doesn't affect what I think about this complaint. For the reasons I've explained, I think that if Savvy had done proportionate checks before lending, it would've likely seen information that should've led Savvy to decline Mr P's loan application in January 2019.

So I don't think it was reasonable for Savvy to think that it was likely Mr P would be able sustainably to repay his borrowing – and this means it shouldn't have provided this loan to Mr P.

### **Putting things right**

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

- A) remove all interest, fees and charges from the balance on the loan, and treat any repayments made by Mr P as though they had been repayments of the principal on the outstanding loan.
- B) If this results in Mr P having made overpayments then these should be paid back to Mr P with 8% simple interest\* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.
- C) If there is still an outstanding balance owing then the amounts calculated in "A" should be used to repay this. Any surplus should be paid to Mr P. However if there is still an outstanding balance then Savvy should try to agree an affordable repayment plan with Mr P.
- D) remove any adverse information recorded on Mr P's credit file in relation to the loan once it is repaid – and if necessary, ask the debt purchaser to do the same.

\*HM Revenue & Customs requires Savvy to take off tax from this interest. Savvy must give Mr P 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 P's complaint. Valour Finance Limited trading as Savvy.co.uk should take the steps I've set out to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 25 September 2020.

Susan Webb  
**Ombudsman**