DRN-2243478

The complaint

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

What happened

This complaint is about one loan Savvy provided to Mr A in April 2019. It was for £2,000 and was repayable over 18 monthly instalments of £222.21. At the time of writing this decision, the loan is outstanding.

The complaint has been reviewed by one of our adjudicators and they upheld Mr A's complaint and thought the loan shouldn't have been given because had Savvy done proportionate checks it would have seen that Mr A wasn't earning as much as he had declared he was and that he had other open accounts with high-cost lenders in addition to what he had told Savvy. This all suggested he was having difficulties managing his money.

Savvy disagreed and said the adjudicator was including a secure debt in their calculations of Mr A's outgoings. It also said that Mr A had confirmed he didn't have any outstanding debts when he was questioned by their underwriter.

Mr A responded to the adjudicator's opinion and explained that his financial situation had caused him to suffer with stress and anxiety.

As the complaint couldn't be resolved informally, it was passed to me to issue 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 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 A 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 A 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 A's complaint. Having done this, I'm upholding Mr A's complaint. I'll explain why.

Savvy says it carried out checks before it lent the loan to Mr A. And has provided a copy of the underwriting telephone call between itself and Mr A. During this call, Savvy asked for information from Mr A about the purpose of the loan, whether he was employed, how much he earned, what his outgoings were and the number of dependants he had. But given the amount Mr A was borrowing and the length of time he was committing to making repayments, I think Savvy should have been looking to build a clearer picture than it did about Mr A's finances before lending him this loan. Such as verifying the information Mr A provided during the unwriting call – by asking to see a copy of his bank statements and/or his payslips or bills.

Had Savvy carried out proportionate checks, it would have seen that Mr A had loans with other short-term lenders as well as a regular payment to a high-cost lender. These payments would have been increasing his monthly outgoings by a significant amount. And this behaviour was mostly likely an indication Mr A was in a cycle of debt which was becoming increasingly more difficult to sustain. I think this is shown by the fact the balance of the loan is outstanding.

In addition, it looks like Mr A wasn't earning as much as Savvy had recorded he was. Savvy has recorded Mr A's income as £5,500 but this was his gross pay. His bank statements show his income from his employment in January and February 2019 to be £3,765 – so his income was at least £1,735 less a month. This would have significantly reduced his disposable income.

I've noted Savvy's comments about the adjudicator including a secured debt for car finance in their calculations about Mr A's outgoings and how Savvy had already included this amount when it considered Mr A's eligibility. Having looked at all the information, I think regardless of whether this debt was included or not, Mr A was still using a significant portion of his income on repaying debt. And this was a sign that Mr A wasn't effectively managing his finances.

For the reasons explained above, I'm upholding Mr A's complaint.

I've also thought carefully about what Mr A has said about how his financial difficulties were impacting him and whether this should mean that Savvy pays additional compensation to him as well as the standard redress. Whilst I can appreciate this must have been a very difficult time for Mr A and I think Savvy's actions certainly didn't help, I don't have enough evidence to say it was the sole reason for Mr A's stress. I can see that Mr A was suffering financial stress prior to taking the loan with Savvy.

So, Savvy only needs to pay the standard redress as I've laid out below.

Putting things right

If Savvy has sold the outstanding debt, Savvy should buy it 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 remove all interest, fees and charges from the balance on the loan, and treat any repayments made by Mr A as though they had been repayments of the principal on it. If this results in Mr A 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.

B) 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 loan. If this results in a surplus, then the surplus should be paid to Mr A. However, if there is still an outstanding balance then Savvy should try to agree an affordable repayment plan with Mr A. Savvy shouldn't pursue the outstanding balance made up of principal Savvy has already written-off.

C) Savvy should remove any adverse information recorded on Mr A's credit file in relation to the loan.

† 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

I'm upholding Mr A's complaint. Valour Finance Limited Ltd should put things right 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 9 December 2020.

Claire Marchant-Williams
Ombudsman