DRN-2254491

Financial Ombudsman Service

The complaint

Mr T complains that Valour Finance Limited trading as Savvy.co.uk lent to him irresponsibly.

What happened

Savvy approved a loan for Mr T which was a 15 month instalment loan of £1,000.00. This was approved on 17th August 2017 and payable in 15 instalments of £133.33 monthly. Before Loan 1 was paid off, Mr T asked for more and Savvy offered him a fresh £1,000 loan from which around £495 would be used to pay off the first loan. Loan 2 was approved on 31 May 2018 for a further 15 months at £133.33 each month.

Mr T complained to Savvy in April 2020. Its response in May 2020 was that it thought it had done all it needed to do. Mr T referred the complaint to us.

One of our adjudicators thought that Savvy should not have lent to Mr T at all. Savvy disagreed and gave additional evidence including call recordings and its credit file search results from the dates when Mr T had applied.

Our adjudicator gave a second view which had not altered from earlier. The complaint remained unresolved and was passed to me for a decision. I issued a provisional decision in which I said I was planning to uphold Mr T's complaint in part.

Savvy has emailed us to say it had nothing to add. Mr T spoke to one of our adjudicators. I have listened to that recorded call. Mr T had reservations but overall, he was content to accept the provisional decision in order to resolve the complaint.

So, I have decided to issue my final decision, but first I set out my provisional findings here and they form part of this final decision.

The provisional decision findings dated 29 October 2020:

Savvy needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr T 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.

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: where a customer's income is particularly low; where the repayments are particularly high; and/or where the frequency of the loans and the length of time over which a customer has been given loans need to be looked at: repeated refinancing could signal that the borrowing had become, or was becoming, unsustainable.

Savvy was required to establish whether Mr T could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. 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 Consumer Credit Sourcebook ("CONC") defines 'sustainable' as being the ability to repay without undue difficulties. The customer should be able to make repayments on time, while meeting other reasonable commitments, and 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 will not be able to make their repayments sustainably if they need to borrow further in order to do that. I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr T's complaint.

Mr T's reasoning as to why Savvy did not do enough and ought not to have lent to him is:

- *if his bank statements had been scrutinised then Savvy would have realised he was gambling and he would not have had access to the funds to continue with that;*
- *he had at least five active payday loans before Loan 1 was approved;*
- *the Loan 2 top-up was approved in May 2018 when he had 7 or 8 outstanding payday loans;*
- *his continuous missed/late payments on the account reinforces the fact that the loans were not sustainable to begin with.*

I have reviewed the credit search results supplied by Savvy for each of the loan application dates. And I have listened to what Savvy refers to as the 'underwriting' telephone calls recorded at the time.

<u>Loan 1</u>

For Loan 1, I do not think that Savvy needed to do more than it did. Mr T was a new customer and I think that it did carry out checks proportionate to the loan and the repayment sums of £133 a month. Mr T had declared a salary of £2,200 and Savvy had verified that income. Savvy said that it knew Mr T's declared outgoings and his total expenditure figure including his debt repayments. Mr T had told Savvy he was living at home with his parents. Savvy was aware of the financial situation with Mr T and this was his first loan with it. The credit file search results Savvy had, gave it satisfactory information.

I accept Savvy's explanation that the reason the call operator asked Mr T specifically about several other lenders was because Savvy knew they used a different credit agency for its customers. This was proportionate.

I would not have expected Savvy to ask to look at bank statements or to carry out a full financial review at that stage in the lending relationship.

I am planning not to uphold Mr T's complaint for Loan 1.

<u>Loan 2</u>

At the end of May 2018, before he had repaid Loan 1, Mr T wished to borrow more. He declared a total monthly income of £2,200.00 and Savvy's final response letter to Mr T states that he gave them a total monthly expenditure figure of £1,145, including his existing debt repayments. And on these figures the loan would have looked affordable as the repayments were going to be the same as before - £133 a month.

Coming back for more money ought to have alerted Savvy that Mr T may have some deeper financial issues. Savvy was offering a further 15 month loan which would have extended his indebtedness into 2019. So, I think additional checks would have been proportionate and by that I do think that a full financial review was warranted because of the amount, the length of the loan and the fact that Mr T was asking for more before his first loan had been repaid. Savvy did some additional checks. It followed up Mr T's request with a call. I have listened to that recorded call between Savvy's operator and Mr T. The telephone operator had his credit file before her as she asked pertinent questions.

The Savvy credit search result for Mr T for that date - a copy of which has been sent to me - showed one unsecured loan taken March 2018 for £500 and the balance in May 2018 was £317. Two other loans had been repaid in March 2018 and April 2018. The Savvy operator then asked Mr T about loans with four other lenders. Savvy has explained it does that to cover off the lenders it knows does not use the same credit agency that it does. One of these related to a known instalment high cost credit lender. Mr T said that he did not have a loan with that company but I have seen from another source that he did.

And one way for Savvy to have carried out a full financial review was to have asked to see some bank statements for the period leading up to 31 May 2018. Mr T has provided those to us and upon review I can see that he had numerous high cost credit loans or payday loans crediting his account and being paid for by him over the period of April and May 2018. So, I do not think that the additional loan of £1,000 with the additional cost over 15 months of £133 was lent responsibly. Mr T was too indebted already at that stage to be able to make these repayments in a sustainable way.

Mr T has referred to gambling but in the period of bank statements I reviewed – April and May 2018 – I do not see any evidence of that. Had Savvy looked at the statements for that period leading up to Loan 2, as one way to have carried out a full financial review, then I do not think it would have appreciated that Mr T had been gambling.

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 have set out our general approach to complaints about short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

As both parties have either nothing further to add or accept my provisional decision, then I have no reason to alter those provisional findings as set out in the background part of this final decision.

So I uphold Mr T's complaint in part for the same reasons as set out above.

Putting things right

Savvy needs to put things right for Mr T in relation to Loan 2.

A) Savvy should add together the total of the repayments made by Mr T towards interest, fees and charges on Loan 2, including payments made to a third party where applicable, but not including anything already refunded.

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

C) Savvy should pay Mr T the total of “A” plus “B”.

D) Savvy should remove any adverse payment information recorded on Mr T’s credit file in relation to Loan 2, where applicable.

*HM Revenue & Customs requires Savvy to deduct tax from this interest. It must give Mr T a certificate showing how much tax has been deducted, if he asks for one.

My final decision

My final decision is I uphold Mr T’s complaint in part and direct that Valour Finance Limited trading as Savvy do as I have outlined above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr T to accept or reject my decision before 10 December 2020.

Rachael Williams
Ombudsman