DRN-2361606

## The complaint

Mr F complains that TFS Loans Limited lent to him in an irresponsible manner.

## What happened

Mr F was given a single loan by TFS in April 2018. He borrowed £5,000 and agreed to repay the loan in 60 monthly instalments. Mr F told TFS that he intended to use the loan to consolidate a number of other debts that he held.

Mr F's complaint has been assessed by one of our investigators. He didn't think that the checks TFS had done were sufficient. But he concluded that better checks wouldn't have been likely to suggest that Mr F would be unable to repay the loan in a sustainable manner. So he didn't think that TFS had been wrong to give this loan to Mr F.

Mr F didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

## 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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr F's complaint.

The rules and regulations at the time TFS gave this loan to Mr F required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so TFS had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr F. In practice this meant that TFS had to ensure that making the repayments wouldn't cause Mr F undue difficulty or adverse consequences. In other words, it wasn't enough for TFS to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr F.

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 consumer (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.

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 repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether TFS did what it needed to before agreeing to lend to Mr F.

TFS gathered some information from Mr F before it agreed the loan. It asked him for details of his income, and his normal expenditure. It used some industry statistical data to revise parts of Mr F's declared expenditure upwards. And it checked his credit file to assess how much he was repaying to other creditors and how he'd managed credit in the past.

Mr F was entering into a significant commitment with TFS. He would need to make monthly repayments for a period of five years. So I think it was right that TFS wanted to gather, and independently check, some detailed information about Mr F's financial circumstances before it agreed to lend to him. I think that the checks I've described above were sufficient for TFS to achieve that aim – I think the checks were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. So I've looked at the results of TFS's checks to see whether it made a fair lending decision.

Mr F told TFS that he wanted to use the loan to consolidate a number of other debts. On his application form he provided TFS with details of eleven lenders that he intended to repay – those repayments totalled £4,400. And when he spoke with TFS he explained that he would use the remainder of the loan to further reduce his outstanding balances on a credit card and short-term loan.

The credit check results that TFS received showed the extent of Mr F's past borrowing. Although he had generally managed his repayments well, I think the sheer number of loans and credit card accounts that Mr F had open should have caused concerns to the lender. Mr F himself explained to TFS that he "*had been a bit silly with money in the past*" but he went on to say that he was "*getting it all sorted now*".

I'm not persuaded that, given the purpose of the loan was to consolidate so many debts, TFS should have been significantly concerned by the information shown on Mr F's credit check. But given it indicated that he had struggle to manage his money in the past I think there is an argument that it should have delved deeper into his finances before agreeing the loan. So I've looked at Mr F's bank statements, and what he's told us about his financial situation, to see what further checks would have shown TFS.

At this stage I want to be clear that I am not suggesting that this is the exact check that TFS should have carried out – and in fact I think it is arguable whether further checks were needed at all. But if I were to conclude that TFS needed further evidence to corroborate what Mr F said was happening with his finances, looking at his bank statements would have been one way of achieving that - although there are of course many other ways that level of detail could be established. However I think that by looking at Mr F's bank statements I can get a good idea of what better checks might have shown.

Mr F has sent us copies of his bank statements from around the time the loan was agreed. Those statements show that he was indeed making repayments to a number of other lenders. But they don't show any other signs of financial distress such as payments regularly being returned unpaid or excessive use of an overdraft. Mr F says that he was suffering from a gambling addiction at that time. But the statements he has provided do not show evidence of those problems – I understand that Mr F used another account for transactions of that nature. So on balance, had TFS requested copies of Mr F's bank statements, I think it most likely he'd have provided the same statements he sent to us – not those showing problems with gambling.

So in summary, even if I thought that TFS should have done further checks before lending to Mr F, I'm not persuaded that those checks would have led to his loan application being declined. I'm very sorry to hear about the financial problems Mr F continues to face, but I cannot conclude that TFS acted irresponsibly in providing this loan to him. It was entitled to rely on the results of its checks, alongside the information Mr F provided about his finances. And that information didn't suggest that Mr F would find it difficult to repay the loan in a sustainable manner.

## My final decision

For the reasons given above, I don't uphold the complaint or make any award against TFS Loans Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 28 October 2021.

Paul Reilly
**Ombudsman**