

## The complaint

Mr S complains UK Credit Limited didn't complete reasonable and proportionate checks when approving him for two guarantor loans.

## What happened

Mr S was approved for two guarantor loans with UK Credit:

Date of loan	Capital Amount	Term	Monthly repayments (approx.)	Total repayable value (approx.)
May 2017	£3,000	18 months	£237	£4,261
March 2019	£6,000	24 months	£366	£8,794

In August 2020 Mr S complained to UK Credit. It reviewed Mr S's complaint and upheld it in part. UK Credit said it couldn't be satisfied it had completed sufficient checks before approving loan one. It offered to put Mr S back in the position he would have been in had it not provided him with the loan. In relation to loan two, UK Credit said it completed reasonable and proportionate checks to satisfy itself the loan was affordable to Mr S. Therefore, it didn't uphold Mr S's complaint in relation to loan two.

Our investigator reviewed the sale of loan two and didn't uphold it. He said UK Credit hadn't completed reasonable and proportionate checks before approving the loan. He went on to consider what further checks would have shown UK Credit; and he concluded the loan was sustainably affordable to Mr S.

UK Credit didn't reply to our investigator's outcome. Mr S responded and said he didn't agree. In summary, he said his financial position was worse at the point of loan two; and therefore, as UK Credit had upheld his first loan it should have upheld his second loan. He also said he'd been in financial difficulties for around 20 years and this had led to his mental health suffering.

Mr S asked for an ombudsman to review the complaint, so it's been passed 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.

As there is no longer a dispute about the sale of loan one my decision only considers the unresolved dispute about loan two.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Mr S's complaint. Bearing in mind the complaint before me, I think that there are a number of overarching questions I need to consider in order to fairly and reasonably determine Mr S's complaint. These are:

1. Did UK Credit complete reasonable and proportionate checks on Mr S to satisfy itself he was in a position to afford to repay loan two sustainably?
  - If so, did it make a fair decision?
  - If not, would those checks have shown Mr S would have been able to do so?
2. Did UK Credit act unfairly or unreasonably in some other way?

I've gone on to answer these questions in turn.

Did UK Credit complete reasonable and proportionate checks on Mr S to satisfy itself he was in a position to afford to repay loan two sustainably?

The relevant rules, regulations and guidance at the time UK Credit lent required it to carry out reasonable and proportionate checks to assess Mr S's ability to afford the loan and repay it sustainably over its term, without causing him financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrowers individual circumstances.

It isn't sufficient for UK Credit to just complete proportionate checks – it must also consider the information it obtains from these checks to go on and make a fair lending decision.

Mr S has said he's been in financial difficulties for around 20 years. He says he was increasingly becoming reliant on credit and was borrowing money from a number of high cost credit lenders. Mr S said this had a detrimental impact on his mental health over the years. And that he was in a worse financial position at the point of loan two than at loan one; and as UK Credit has upheld loan one, he says it follows loan two wasn't affordable either.

UK Credit has said it completed a number of checks before approving Mr S for loan two. It says it completed an affordability assessment over the telephone and discussed details of Mr S's income, credit commitments and his individual circumstances. It obtained one month's payslip to verify Mr S's income; and it says it obtained details of Mr S's essential expenses. It also obtained a copy of Mr S's credit file to conduct a review of his outstanding debt; to identify Mr S's credit commitments and to understand how his credit was currently – and had historically – been managed. UK Credit says Mr S was looking to consolidate existing debts and it went through which debts would be consolidated as part of this loan. It says Mr S was looking to consolidate six credit accounts totalling around £5,200. When Mr S complained to UK Credit it requested his bank statements covering three months before loan two was approved. It says it reviewed these as part of its complaint response and maintains its position that it made a fair decision when approving loan two for Mr S.

I've carefully considered UK Credit's argument; but I'm not persuaded it did complete reasonable and proportionate checks before approving loan two. I say this because this loan was for twice as much as loan one, and the repayable term was also increasing. While loan two was new lending and not a top-up of loan one, UK Credit did need to take into account the information it already had available from its previous relationship with Mr S. And it would have seen Mr S's use of credit had increased over the near two years between loan one and loan two; suggesting a higher reliance on credit.

Within six months of this application Mr S had been approved for a loan over a term of 36 months; and still had an outstanding balance of around £4,850 to pay. He had five credit card/store card accounts with a total active balance of around £3,100; all of which were relatively close to their limits. Mr S also had a mail order account with an active balance of around £400; and there's evidence of an increase in the use of payday lending shortly after

loan one was approved. Mr S also appears to have defaulted on an overdraft on a bank account in 2017; and a loan in 2018. However, both appear to have been settled by the time he applied for loan two.

During the application stage Mr S made UK Credit aware he'd also recently taken out a home credit loan, which wasn't showing on his credit file. He said it had an outstanding balance of about £1,700, although he was looking to consolidate it as part of this loan.

Including the home credit loan Mr S had nearly £11,000 outstanding across his active credit accounts. So, this consolidation would still leave Mr S with around £5,000 of debt to service in addition to this loan.

I consider UK Credit needed to obtain a full understanding of Mr S's financial circumstances before approving him for this loan; to ensure it was sustainably affordable and wasn't increasing his overall indebtedness in a harmful way. I consider reasonable and proportionate checks should have led UK Credit to verify Mr S's actual expenditure and credit commitments to ensure this loan was sustainably affordable to him.

Would further checks have shown Mr S would have been able to meet any repayments sustainably?

As I don't consider UK Credit completed reasonable and proportionate checks, I've gone on to consider what further checks would have shown.

As part of its review of Mr S's complaint, UK Credit obtained bank statements which covered a period of around three months leading up to loan two being approved. From its review of Mr S's statements, UK Credit has said loan two was affordable; and it maintains that it made a fair lending decision when it approved the loan.

I've also reviewed these statements to understand the information UK Credit would have had available to it, had it obtained these as part of it completing reasonable and proportionate checks. I've also listened to the telephone call Mr S had with UK Credit as part of the application process.

During the call UK Credit went through an income and expenditure assessment with Mr S, where he declared his income to be around £2,800 per month and his rent to be around £450 per month. UK Credit took details of Mr S's essential expenditure which included items such as utilities, food and travel; and it included a provision for entertainment. UK Credit calculated Mr S's essential expenditure to be around £800 a month based on his declarations.

It also noted the existing credit commitments Mr S had; including a home credit loan Mr S had taken within a month of this application which wasn't showing on the credit file search it completed. When reviewing the credit accounts Mr S was looking to consolidate, UK Credit calculated Mr S's payments to his credit commitments would be around £550 a month once this loan was approved. It therefore calculated Mr S would have a disposable income of around £1,000 per month after taking into account the payments to this loan.

From reviewing the bank statements UK Credit obtained I can see Mr S's monthly income averaged around £2,700 and his rent payments were £450 per month. I can see payments to some utility providers and travel, as well as Mr S's existing credit commitments totalling around £500. But Mr S's expenditure is difficult to calculate on a strictly pounds and pence basis – as there are a number of cash withdrawals across the months. I consider UK Credit needed to have obtained a thorough understanding of Mr S's financial position, including looking to understand the nature of the significant cash withdrawals from Mr S's bank

account. Mr S also has a number of transfers to and from another account over the months leading up to this loan.

As part of my review I asked Mr S to provide his statements in relation to the account the money was being transferred to and from. Mr S provided these statements covering a period of three-months leading up to loan two. Mr S also made us aware that he was gambling at this time and the cash withdrawals from the bank account statements UK Credit obtained were used to gamble.

There are transactions to online gambling sites shown on the additional statements Mr S has provided, totalling around £300 across the three months. However, I wouldn't necessarily consider this amount excessive in Mr S's individual circumstances as when averaged out across the three months it's around £100 a month.

From the statements UK Credit reviewed, I can see Mr S withdrew around £2,700 by cash withdrawals across January and February 2019. But I can't safely say UK Credit would have reasonably identified what Mr S was using the cash withdrawals for. Whilst I have no reason to doubt Mr S's testimony; I'm not satisfied on balance that UK Credit could've reasonably been aware of what the cash withdrawals were being used for.

I've also seen on the additional statements Mr S has provided this service that he had taken further borrowing in the form of payday and instalment loans from other high cost lenders in the three months leading up to this loan. However, these loans don't appear on the credit check UK Credit obtained, and Mr S doesn't appear to have declared he had any other open lending in addition to the home credit loan when asked during the pre-approval call with UK Credit. So, while I can see this additional lending, again I don't think it unreasonable that UK Credit wouldn't have identified this information when completing reasonable and proportionate checks. I say this because Mr S would likely have provided UK Credit with his main bank account statements, as he did when it investigated his complaint, and I think had UK Credit received plausible explanations for the cash withdrawals, it would have been reasonable for it to have continued with its decision to lend.

Having reviewed Mr S's bank statements it does appear that this loan would be affordable to Mr S. I say this because Mr S's income and essential expenditure is evidenced within his statements. And it does appear to closely match the disposable income UK Credit identified before approving the loan.

I've also taken into account the reason for this loan – Mr S declared to UK Credit that he was looking to obtain loan two in order to consolidate existing debts. So, UK Credit wasn't providing further credit in addition to what he currently had outstanding. It went through all of Mr S's existing credit and identified the debts that Mr S was looking to refinance. And it was reasonable for it to exclude these debts from its affordability assessment.

Although there were signs that Mr S had recently increased his borrowing and had historic evidence of problems managing his money; his recent management appears to have improved. And given the nature of this lending being to consolidate existing debts, I don't consider it unreasonable for UK Credit to have progressed the loan application based on what it would likely have identified with Mr S's management of his finances. Ultimately, the debt consolidation looked to put Mr S in a better financial position.

I therefore consider it likely UK Credit would reasonably have come to the same decision to lend to Mr S had it completed reasonable and proportionate checks before approving loan two. And therefore, I'm satisfied UK Credit made a fair lending decision when approving loan two.

Did UK Credit act unfairly or unreasonably in some other way?

I've not seen any information which suggests UK Credit acted unfairly in any other way in relation to Mr S's complaint.

**My final decision**

For the reasons set out above, my final decision is that I don't uphold Mr S's complaint about UK Credit Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 8 February 2022.

Richard Turner  
**Ombudsman**