

The complaint

Mr W complains that UK Credit Limited lent to him irresponsibly.

What happened

Mr W was given a single loan by UK Credit. He told UK Credit that the loan purpose was debt consolidation – in other words, to pay other debt. The main loan details are as follows:

Date loan taken	Loan status	Amount	Term	Monthly repayment	APR
August 2016	Not paid	£10,000	60 months	£339.68	37.9%

Mr W's complaint has been assessed by one of our investigators who didn't think the complaint should be upheld or that UK Credit needed to pay anything to Mr W.

Mr W didn't agree with our investigators view. He mainly said (and this is just a brief summary in my own words) that if our investigator had seen more of his bank statements then he might have come to a different opinion and in borderline cases Mr W suggested that at least *some* interest could be refunded. He told us that he was vulnerable and irresponsible when he got into financial difficulty and this should be taken into account. He felt that being loaned money for debt consolidation wasn't helpful if it put someone in double debt and in his case his money problems spiralled out of control.

Mr W has asked for an ombudsman to review his complaint so it 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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr W's complaint.

I'd like to reassure Mr W that I've looked at the complaint afresh – and I've independently reached the same conclusions as our investigator. I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant to the outcome. I haven't commented on everything Mr W has said during the course of this complaint where there's nothing more I can usefully add to what our investigator has said in response already. But I will deal with all the main points that have an impact on the outcome of this complaint. And I hope that setting out the reasons as I've done will help explain how I've reached my decision.

There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr W's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out.

For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend.

For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

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 (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).

I've kept all of this in mind when thinking about whether UK Credit did what it needed to before agreeing to lend to Mr W. And I've thought carefully about the following key questions:

- Did UK Credit complete reasonable and proportionate checks to satisfy itself that Mr W would be able to repay the loan in a sustainable way?
- If not, what would reasonable and proportionate checks have shown at the time?
- Was UK Credit's lending decision fair?
- Did UK Credit act unfairly or unreasonably in some other way?

UK Credit gathered some information from Mr W before it agreed the loan. It asked him for details of his income and verified this by looking at payslip information. UK Credit did a credit check and during a phone call it asked Mr W about his normal monthly spending and discussed in some detail how he planned to use the loan and which debts he would be repaying.

Mr W's monthly income was recorded as £1650. UK Credit didn't feel there was anything adverse shown on its credit checks and it worked out that *after* taking out this loan and using it to pay the debts Mr W had mentioned, he would still have around £804 spare cash. So UK Credit concluded that the monthly repayment of £339.68 on this loan should've been affordable for him. And it said using its loan in the way Mr W had told UK Credit he planned to do would reduce the amount he was currently paying towards servicing his debts. So this led UK Credit to conclude that the loan was comfortably affordable for Mr W and that it was fair to lend to him.

Mr W was entering into a very significant commitment with UK Credit. He would need to make substantial monthly repayments on this loan for the next 5 years. So, like our investigator, I don't think that the checks UK Credit did were enough. I would expect that UK Credit would want to gather, and independently check, some more detailed information about Mr W's financial circumstances before it agreed to lend to him. And I think it would have been proportionate for UK Credit to have done more in-depth checks to verify it had a proper understanding of the true state of Mr W's finances before agreeing the loan.

But although I don't think the checks UK Credit did before agreeing the loan were sufficient, that isn't a good enough reason for me to be able to uphold Mr W's complaint. In order for Mr W's complaint to succeed, I would need to be able to say that proportionate checks would have shown UK Credit it was likely that Mr W couldn't sustainably afford the repayments.

So, I've looked at what I think proportionate checks would likely have shown.

Mr W has provided us with some bank statements which I think provide a useful insight into his overall financial situation at the time. And I've taken into account everything that Mr W has told me and what he said in his response to our investigators view.

I haven't seen enough overall to make me think that even if UK Credit had sought a fuller picture of Mr W's finances it should've realised that the loan wasn't sustainable for him.

I say this because the credit check UK Credit did suggested Mr W was managing his credit reasonably well - he had no indications of insolvency, court judgements or any defaults or any other indicators on his credit report of serious financial difficulty.

Mr W had around £1,400 available credit that he *wasn't* using. So although Mr W was £13 over the credit limit on one of his credit cards I think it's fair to say that would've looked more like an unintentional overspend rather than a sign he had serious problems managing his money. He had another credit card with a £200 credit limit and a balance outstanding of just £24.

And although Mr W was already servicing debt of around £25,230, this loan from UK Credit was intended to repay some of that debt – so this meant it wouldn't be adding to Mr W's overall indebtedness.

I can see from the bank statements Mr W has sent me that his account slipped into overdraft during the statement period in the run up to him taking out this loan and he was paying loans

taken with some other high cost lenders. But it isn't unusual for applicants for this type of high cost loan to have other borrowing or even an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application. Mr W's bank account looked to be mostly in credit from what I've seen and his statements show quite a lot of spending on non-essential things that Mr W could potentially have cut back on if he had wanted to make some savings.

I've taken into account everything that I think it's likely UK Credit should've found out about Mr W's actual financial situation when he applied for this loan – and I haven't seen enough to make me think that UK Credit ought to have made a different lending decision had it seen all this information. I think it would've been reasonable to conclude that the loan it provided still looked like it ought to be affordable for Mr W and it was fair to lend to him.

I've thought carefully about Mr W's point about his vulnerability at the time and that, potentially, there was a risk that Mr W would be adding to his debt problems with this loan.

I've carefully listened to the call recording when Mr W discussed his financial situation and his debt consolidation plans. UK Credit made careful note of exactly how Mr W said he planned to use the loan it provided and worked out that this should mean that Mr W would be around £100 better off each month after taking this loan. I don't think there were any clues in the phone call he had with UK Credit that should have alerted it to any particular vulnerability on Mr W's part. He was fully engaged in the loan application process, things were properly explained, including the overall cost of the loan and what the monthly repayments would be and Mr W seemed happy to agree these terms at the time.

Even allowing for the fact that this loan couldn't have cleared all of Mr W's outstanding debt I think he could still have used it to help him significantly lower his monthly credit commitment. So I can't fairly say that UK Credit provided the loan irresponsibly or unfairly.

I appreciate that Mr W feels strongly about this complaint and that he will be disappointed in my decision. And I'm sorry that he has run into money problems and had difficulty paying this loan. But I don't think UK Credit could reasonably have foreseen this when it provided this loan to him.

I haven't seen anything to make me think that UK Credit acted unfairly in any other way towards Mr W. So I haven't seen enough to be able to uphold Mr W's irresponsible lending complaint. This means I can't fairly say that UK Credit needs to do anything to put things right for Mr W.

I appreciate that my decision will be disappointing for Mr W but I think it is reasonable for UK Credit to expect him to repay what he has borrowed – although on flexible terms to reflect his financial situation while he has continuing money problems.

I take this opportunity to remind UK Credit (or any a third-party debt collection agent) that it should always discuss payment options constructively with Mr W and treat him fairly and sympathetically if Mr W needs further time to pay what he still owes.

I can see that Mr W has already made contact with a debt charity. If Mr W would like further help to manage his finances there's more information about how to get free debt advice (and other help) on our website – or we can provide contact details if he gives us a call.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 8 September 2021.

Susan Webb
Ombudsman