

## The complaint

Mr B complains that Greenlight Credit Limited, trading as Varooma, ("Varooma"), lent to him in an irresponsible manner.

## What happened

Mr B was given nine loans by Varooma from September 2014 to May 2018. Mr B has successfully repaid the loans. The date of repayment of Loan 9 is unknown but Varooma has since told this Service that Mr B had no active accounts. A summary of Mr B's borrowing history is as follows:-

Loan number	Date of loan	Loan amount	Repayment date	Number of monthly repayments
1.	24/9/2014	£2,500	29/9/2014	36
2.	29/9/2014	£4,800	1/9/2015	36
3.	1/9/2015	£4,600	1/12/2015	36
4.	1/12/2015	£2,000	6/1/2016	36
5.	6/1/2016	£3,650	9/1/2017	36
6.	9/1/2017	£2,000	18/4/2017	36
7.	18/4/2017	£3,650	1/11/2017	60
8.	1/11/2017	£4,600	15/5/2018	60
9.	15/5/2018	£5,800	Unknown	60

The loans were 'log book' loans. They were granted on the basis that Mr B provided Varooma with a bill of sale for his car. This meant that if Mr B didn't make his loan repayments, Varooma could potentially recoup its losses through the sale of the car.

Mr B said that if Varooma had carried out proper checks, the loans would not have been granted. On his penultimate application, Varooma asked him for three months' bank statements and the loan was granted. On his last application, Mr B provided three months' bank statements, and the loan was declined due to multiple transactions on the statements to gambling websites. Mr B said that this would have been evident on any of his previous bank statements if they had been asked for. Varooma would also have seen the amount of returned direct debits on his account, payday loan transactions, a debt management plan, missed payments and other loans indicating he was borrowing to pay off debt which ultimately could not be sustained. Mr B said that his repeat borrowing should have been an indicator to the lender that he was in financial difficulty. Varooma would also have seen from his credit record that he had missed payments, defaults, a debt management plan and that he was in financial difficulty. Mr B said that Varooma didn't ask him about his expenses in enough detail.

In its final response letter, Varooma said it had reviewed Mr B's accounts and the information he provided at each application. From what he had provided, it was evident the loan was affordable. Varooma later checked the information provided by Mr B to confirm it was true and accurate. There were no concerns raised and the loans were granted. The loan

repayment history also showed that the loans were affordable and at no stage was it notified of any hardship preventing Mr B from making payments towards his accounts.

#### *Our adjudicator's view*

The adjudicator recommended that Mr B's complaint about Loans 2 to 9 should be upheld. With regard to Loan 1, he said that given the term of the loan, the amounts Mr B had to repay, what was apparent about his circumstances at the time and his history with Varooma, he didn't think it would've been proportionate for Varooma to ask Mr B for the amount of information needed to show the lending was unsustainable.

Varooma didn't provide a reply to the adjudicator's view.

As the complaint hadn't been resolved informally, it was passed to me, an ombudsman, to decide.

#### *my provisional decision*

After considering all the evidence, I issued a provisional decision on this complaint to Mr B and to Varooma on 16 February 2021. I summarise my findings:

I'd noted that when Varooma lent to Mr B the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook (CONC). The CONC contained guidance for lenders about responsible lending.

The relevant rules said that a lender must undertake a reasonable assessment of creditworthiness, considering both the risk to it of the customer not making the repayments, as well as the risk to the customer of not being able to make repayments.

The rules didn't set out any specific checks which must be completed to assess creditworthiness. However, the lender should take into account the borrower's income (over the full term of the loan) and their ongoing expenditure for living expenses and other debts and any indications of vulnerability or financial difficulty. Whilst it is down to the lender to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments and the total cost of the credit.

So, Varooma's assessment needed to be flexible – what was reasonable for one borrower might not be so for another, or what might be reasonable for a borrower for one loan application might not be so for the same borrower for a different loan.

In general, I'd expect a lender to require more assurance the greater the potential risk to the consumer of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance by carrying out more detailed checks

- 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 *longer* the period of time a borrower would be indebted for (reflecting the fact that the total cost of credit was likely to be greater and the borrower was required to make repayments for an extended period) and
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer had been given loans (reflecting the risk that repeated refinancing might signal that the borrowing had become, or was becoming, unsustainable).

Bearing all of this in mind, in coming to a decision on Mr B's case, I'd considered the following questions:

- Did Varooma complete reasonable and proportionate checks when assessing Mr B's loan applications to satisfy itself that he would be able to repay the loans in a sustainable way? If not, what would reasonable and proportionate checks have shown?
- Did Varooma make fair lending decisions?
- Was there a point at which the pattern or history of lending itself showed further borrowing would be unsustainable for Mr B?

I could see that Varooma's loan application process included gathering information from Mr B about his income and expenses. Mr B had signed an income and expenditure statement for each loan application. The statements were signed by Mr B to declare that the information he'd provided was an accurate statement of his income and expenditure and proof of his ability to repay the loan. The statements also said that Mr B believed that his income was adequate for meeting the additional monthly loan commitment.

Loan 1 was for £2,500 to be repaid by 36 monthly repayments of £215.28. The total amount Mr B needed to repay was £7,750 meaning he needed to repay £5,250 in interest for the amount he'd borrowed. The interest rate was 70% with an APR of 154.27%.

Before Loan 1, I could see that Varooma asked Mr B for information about his income and expenses. It said it had carried out a credit check but no longer had this. A signed statement of Mr B's income and expenses was attached to the Loan Agreement for Loan 1.

The statement showed that Mr B's expenses totalled £1,200 including £300 of other debt. It also showed that Mr B had a surplus income of £1,200.

I'd thought about Varooma's checks. CONC made it clear that the extent to which a lender's checks are proportionate depends on the type of credit, the associated cost and the risks to the borrower bearing in mind their financial situation. The rules and guidance also suggest that when income or expenditure is taken into account, checks are less likely to be proportionate where the lender relies solely on a statement of those matters made by the borrower. In Mr B's circumstances, I didn't think it was reasonable for Varooma to base its assessment on the financial information Mr B had provided.

I thought that Varooma's affordability assessment needed to be more detailed and contain a greater degree of verification, in order for it to be fair and proportionate. I thought this was especially the case as Mr B was entering into a substantial commitment with Varooma and it should have taken great care to ensure that he was able to repay the loan in a sustainable manner. I didn't think it was reasonable for Varooma to rely on expenditure information provided by Mr B without verifying it given the cost of the credit, that he needed to make monthly payments on Loan 1 of £215.28 for 36 months, and that there was the possibility of his losing his car if he didn't manage to keep up his repayments.

I'd not seen anything to show that Varooma took steps to do this. And as Varooma failed to take steps to verify the true state of Mr B's finances before Loan 1, I didn't think the checks it carried out before providing this loan were fair or proportionate.

So, I thought that Varooma needed to do more to get a thorough understanding of Mr B's financial position before agreeing to his first loan to reasonably assess the risk to Mr B of not managing to meet his repayments sustainably. It could have done this by, for example,

requesting bank statements from Mr B or by asking for copies of bills and/or receipts for his expenses.

So, I'd thought about what Varooma would've seen if it had done what I considered to be proportionate checks.

Mr B had provided us with his credit report and his bank statements at the time he applied for this loan. I wasn't suggesting that these were the checks that Varooma should have done. But I thought looking at these gave me the best picture of what the lender should have seen. Had it sought some verification of Mr B's spending, I thought Varooma would've been in a better position to understand Mr B's financial situation before it decided to lend to him.

I noted that Mr B's bank statements showed that his monthly income was around £2,478 and so it was a little more than he'd declared to Varooma.

I'd also seen on the credit report and bank statements that Mr B had taken out a high cost credit loan for £5,000 eight days before applying for Varooma's loan. He was repaying three existing short term loans and was paying two mail order accounts which had been in arrears since February 2014. He also had a credit card balance which was over its credit limit. All this suggested that he was likely having problems managing his finances. I thought there was a very real prospect that Mr B would need to borrow again in order to repay his new loan and that would likely have a significant adverse effect on his financial situation.

In addition to this, Mr B had spent more than his income (around £2,647) on gambling in the month prior to Varooma's loan. His spending on gambling was frequent enough throughout that month that it was more likely than not that it would continue in the same pattern and posed a risk to Mr B being able to repay the loan sustainably. In these circumstances, I didn't think that Varooma would have lent if it had known this, as I thought it ought to have if it had made better checks. And in these circumstances, I didn't think it would have been reasonable for Varooma to conclude that Mr B could simply reduce his gambling expenditure to allow him to afford the loan repayments.

So, I thought if Varooma had carried out what I considered to be proportionate checks, I thought it was likely it would have discovered Mr B's relatively substantial expenditure on gambling and the full extent of Mr B's financial commitments. I thought Varooma should reasonably have realised that Mr B was over committed financially and that he was having difficulty managing his finances. So, it was clear that further checks wouldn't have provided the assurance Varooma needed.

I thought Varooma ought reasonably to have realised that it was unlikely that Mr B would've been able to sustainably repay his loan. So, it ought to have concluded that it treated Mr B unfairly when it agreed to lend Loan 1 to him.

I noted that Loan 2 was taken out five days after Loan 1 and was for £4,800, almost double his previous loan. It was again to be repaid over 36 months with substantially higher monthly repayments than the previous loan. Loan 1 was repaid on the date Loan 2 was taken out. As Loan 2 was taken out so soon after Loan 1, the information provided by Mr B was the same as for Loan 1. Although Varooma said it had carried out a credit check, it wasn't able to provide us with a copy of this.

Again, for the same reasons as I'd set out above, I'd thought that Varooma needed to do more to get a thorough understanding of Mr B's financial position before agreeing to Loan 2 to reasonably assess the risk to Mr B of not managing to meet his repayments sustainably. And better checks would have likely shown again that Mr B was unlikely to be able to

sustainably repay Loan 2 for the same reasons as I'd explained for Loan 1. So, I didn't think Varooma should have lent Loan 2 to Mr B.

Mr B took out Loan 3 around a year after Loan 2. Loan 2 was repaid on the day Loan 3 was taken out.

The loan amount was £4,600 and was again to be repaid over 36 months. The total amount Mr B needed to repay was £13,570 meaning he needed to repay £8,970 in interest for the amount he borrowed. The interest rate was 60% with an APR of 141.11%.

Before Loan 3, I could see that Varooma had asked Mr B for information about his income and expenses. It said it had carried out a credit check but no longer had this. A signed statement of Mr B's income and expenses was attached to the Loan Agreement for Loan 3.

The statement showed that Mr B's income was £2,500 and his expenses totalled £1,040 which included no other debts. It also showed that Mr B had a surplus income of £683.06 which seemed to be after the monthly repayment on Loan 3 was taken into account, although the figures didn't appear to be correct as the monthly repayment, expenses and surplus income totalled £2,100.

Nevertheless, for the same reasons as set out for Loan 1, I'd thought that Varooma ought to have wanted to gather, and independently check, some detailed information about Mr B's financial circumstances before it agreed to give Loan 3 to him.

I'd again looked at Mr B's bank statements and credit report to see what better checks would have shown Varooma. It was clear from these that Mr B was still facing significant problems managing his money. He had a credit card account which had been defaulted less than four months earlier with a default balance of £835. He had four outstanding short term loans, the most recent of which was for £370 and had been taken out around two weeks before Mr B's application for Loan 3. He also had a high cost credit loan from another lender, a credit card balance was overlimit, and he was making repayments to a debt management plan. In addition, Mr B was still gambling heavily and was spending around 55% of his income on online gambling. So, I didn't think, having seen that information, a responsible lender would have concluded that it was likely Mr B could meet the repayments on Loan 3 in a sustainable manner. So, I didn't think Varooma should have agreed to give Mr B this loan.

Mr B took out Loan 4 three months after Loan 3, and he'd repaid Loan 3 on the same day. The loan amount had reduced to £2,000 and was to be repaid by 36 monthly payments of £172.22. Before Loan 4, I could see that Varooma had again asked Mr B for information about his income and expenses. It said it had carried out a credit check but no longer had this. A signed statement of Mr B's income and expenses was attached to the Loan Agreement for Loan 4. It showed that Mr B had no other debts and that he had a disposable income of £1,402.78.

Nevertheless, for the same reasons as set out for Loan 1, I thought that Varooma ought to have wanted to gather, and independently check, some detailed information about Mr B's financial circumstances before it agreed to give Loan 4 to him.

I'd again looked at Mr B's bank statements and credit report to see what better checks would have shown Varooma. It was clear from these that Mr B was still facing significant problems managing his money. He had five outstanding short term loans. He'd borrowed three short term loans totalling over £1,200 in the previous month, and two short term loans totalling over £1,200 in October 2015. One of the latter loans was already in arrears. Mr B had missed payments on his mortgage in September and November 2015. He'd taken out another high cost credit loan for £7,300 around two months before his application for Loan 4

and still had another one which was active. He had a credit card balance which was overlimit and in arrears, and he was still making repayments to a debt management plan. In addition, Mr B was still gambling very heavily and was spending around 86% of his income on online gambling. So, I didn't think, having seen that information, a responsible lender would have concluded that it was likely Mr B could meet the repayments on Loan 4 in a sustainable manner. So, I didn't think Varooma should have agreed to give Mr B this loan.

The amount of Loan 5 had increased to £3,650. Mr B repaid Loan 4 on the day Loan 5 was taken out. It was Mr B's fifth loan in almost 16 months. And as each loan had been taken out on the same day a previous loan was repaid, there had been no gaps in his borrowing from Varooma. I thought the multiple loans ought to have suggested to Varooma by the time of Loan 5 that Mr B was having significant problems managing his money.

In addition, looking at the overall history and pattern of lending, I thought by the time of Loan 5, Varooma ought reasonably to have realised it was increasing Mr B's indebtedness in a way that was unsustainable or otherwise harmful and so it shouldn't have provided further loans. I said this because

- Loan 5 was the fourth successive loan Mr B had borrowed from Varooma without any gap in borrowing;
- Mr B wasn't making any inroads to the amounts he owed Varooma. By Loan 5, the amount being borrowed was substantially larger than the amount of Loan 1 and almost double his previous loan;
- Mr B had paid large amounts of interest to, in effect, service a debt to Varooma over an extended period. And by taking out Loan 5, Mr B would have been indebted for another 36 months and would have continued to be reliant on this expensive credit for an extended period;
- The fact that all the loans were repaid didn't mean that they were repaid sustainably, or without causing Mr B undue difficulty.

I thought that Mr B had lost out because these loans had the effect of unfairly and excessively prolonging Mr B's indebtedness to Varooma by allowing him to take expensive credit over an extended period of time. He'd continued to borrow from Varooma for over 28 months more. These loans were very expensive, and I thought that the overall cost of these loans unfairly prolonged Mr B's already difficult financial position. In addition, the presence of these high cost loans on Mr B's credit file was likely to have had implications for Mr B's ability to access mainstream credit.

So as a responsible lender I didn't think Varooma should have provided Loans 5 to 9 to Mr B either.

Subject to any further representations by Mr B or Varooma my provisional decision was that I intended to uphold this complaint. I intended to order Varooma to put things right as set out below.

### **Putting things right - what Varooma needs to do**

As I intend to conclude that Varooma was irresponsible to have lent to Mr B, he shouldn't have to pay any interest, fees or charges for Loans 1 to 9.

So Varooma should:

- Refund any interest and charges paid by Mr B on Loans 1 to 9.

- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement\*.
- Remove any adverse information recorded on Mr B's credit file in relation to Loans 1 to 4;
- Remove all information about Loans 5 to 9 from Mr B's credit file. By this point, I think any information recorded about further borrowing was likely to be adverse.

\* HM Revenue & Customs requires Varooma to take off tax from this interest. Varooma must give Mr B a certificate showing how much tax it has taken off if he asks for one.

Mr B responded to my provisional decision to say he had no information to add.

Varooma responded to my provisional decision to say, in summary, that it wanted to see some examples of Mr B's gambling. It had provided this Service with one of Mr B's bank statements on which it saw no gambling. Varooma also said that Loan 1 was closed over six years previously and it didn't have access to this information any more. So, it wanted to get the loan removed from the resolution as it had no access to payment dates nor verified payment amounts to be able to refund this.

### **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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

With regard to Varooma's queries, I note that the lender has asked for gambling examples. I have referred above to substantial gambling before Loans 1 to 4 and provided information about the extent of Mr B's gambling. Before Loans 5 to 9, I hadn't referred to gambling above. I'd upheld these loans as by the time of Loan 5, I thought Varooma ought reasonably to have realised it was increasing the consumer's indebtedness in a way that was unsustainable or otherwise harmful. The bank statement Varooma sent us was for the period 30 April to 15 May 2018, just before Loan 9. I hadn't referred to gambling transactions before Loan 9 in my provisional decision. So, I wouldn't have expected Varooma to have seen examples of gambling in that statement.

With regard to Loan 1, I note this was repaid on 29 September 2014, five days after being taken out. It was repaid from the proceeds of Loan 2 and Mr B received £2,141.84 from the remaining proceeds of Loan 2. It appears that no other payments were made between Mr B taking the loan out and repaying it from his bank account. I had seen all this information on Mr B's bank statement. It would seem that £2,658.16 was retained from Loan 2 to repay Loan 1. So, it would appear that Mr B was charged £158.16 in interest and/or charges on 29 September 2014 to repay Loan 1. I hope this information will enable Varooma to provide redress for Loan 1.

Otherwise, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold this complaint and require Varooma to pay Mr B some compensation and take the steps set out above.

**My final decision**

My decision is that I uphold this complaint. In full and final settlement of this complaint, I order Greenlight Credit Limited, trading as Varooma, to pay the compensation and to take the steps set out above under the heading "Putting things right - what Varooma needs to do".

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 April 2021.

Roslyn Rawson

**Ombudsman**