DRN-2707956

The complaint

Mr M complains that UK Credit Limited ("UKC") lent to him in an irresponsible manner.

What happened

Mr M was given a loan by UKC in January 2019. He borrowed £10,000 and agreed to repay the loan in 60 monthly instalments.

Mr M's complaint has been assessed by one of our investigators. He thought that the results of UKC's checks should have led the lender to conclude that Mr M was facing problems managing his money, and that he would be unlikely to be able to repay the loan in a sustainable manner. So the investigator thought that the complaint should be upheld, and he asked UKC to pay Mr M some compensation.

UKC 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. If Mr M accepts my decision it is legally binding on both parties.

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 M's complaint.

The rules and regulations at the time UKC gave this loan to Mr M 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 UKC had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr M. In practice this meant that UKC had to ensure that making the repayments wouldn't cause Mr M undue difficulty or adverse consequences. In other words, it wasn't enough for UKC to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr M.

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 UKC did what it needed to before agreeing to lend to Mr M.

UKC gathered some information from Mr M before it agreed the loan. It asked him for details of his income, and his normal expenditure. And it checked his credit file to assess how much he was repaying to other creditors and how he had managed credit in the past.

Mr M was entering into a significant commitment with UKC. He would need to make monthly repayments for a period of five years. So I think it was right that UKC wanted to gather, and independently check, some detailed information about Mr M's financial circumstances before it agreed to lend to him. I think that the checks I've described above were sufficient to achieve that aim – I think that UKC's 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. And that is what I think should have happened in this case.

The credit check results showed that Mr M was making extensive use of other credit. When he applied for the loan Mr M told UKC that he intended to use the loan to consolidate some other debt – repaying a large credit card balance, and another loan that he'd taken out just a couple of months before. I think it was reasonable for UKC to rely on what Mr M said here and discount those debts when it was assessing the affordability of the loan.

But even after discounting those two debts, Mr M was left with a significant amount of credit that he needed to service each month before taking on the additional £330 that he'd need to repay to UKC. From the credit check results I can see that Mr M was already committed to making other repayments of almost £1,200 each month on loans and hire purchase agreements. So when adding in the additional repayment to UKC he would be using over 85% of his declared income just to repay loans.

But that wasn't the full extent of Mr M's credit repayments. The credit check showed that he also had over £6,000 outstanding on revolving credit accounts such as overdrafts, store cards, and credit cards. So he would need to make monthly repayments on at least some of those accounts too.

So even without considering any normal living costs – and I note that Mr M said he was making a £200 monthly contribution to his board as he lived with family – Mr M's outgoings would be very similar to the income he declared to UKC.

So I think the results of UKC's checks clearly showed that it wouldn't be possible for Mr M to repay this new borrowing in a sustainable manner. I accept that by consolidating two of his debts Mr M might actually reduce his monthly outgoings. But that doesn't mean he could afford the repayments. Although the credit check showed that Mr M had kept up with all his repayments in the past, it appears to me that he had only done so by borrowing frequently and repeatedly from other lenders. That is not a sustainable way of managing his finances, and so UKC shouldn't have added to his debt burden.

So I don't think the loan should have been given to Mr M, and UKC needs to pay him some compensation.

Putting things right

I don't think UKC should have agreed to lend to Mr M in January 2019. So UKC should;

- refund all the interest and charges Mr M paid on the loan

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†

- remove any adverse information recorded on Mr M's credit file in relation to the loan

† HM Revenue & Customs requires UKC to take off tax from this interest. UKC must give Mr M a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold Mr M's complaint and direct UK Credit Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 28 March 2022.

Paul Reilly
Ombudsman