

The complaint

Mr H says Greenlight Credit Limited (trading as Varooma) lent to him irresponsibly.

What happened

Mr H borrowed £2,800 from Varooma on 12 January 2019. The loan had a 36-month term, the monthly repayments were £241.11 and the total repayable was £8697.96. Mr H made his repayments in full until February 2020. He then made part payments until he surrendered his car in November 2020; Varooma sold it for £3213.20 and wrote off the remaining outstanding balance of £2376.81.

The loan was a log book loan. It was given on the basis that Mr H 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 recover its losses through the sale of the car – as happened.

Mr H says Varooma lent to him when he was desperate. It could see from his bank statements he wasn't in a position to repay the loan and it should have seen from its credit check that he had defaulted on a number of accounts.

Varooma disagreed and said its checks showed the loan was affordable at the time of application.

The adjudicator recommended that Mr H's complaint should be upheld. She said the checks were proportionate but Varooma hadn't made a fair lending decision. She said from Mr H's credit history Varooma ought to have realised Mr H would have difficulty sustainably repaying the loan.

Varooma disagreed saying, in summary, Mr H had enough disposable income to cover his existing debts and this loan. And Mr H shouldn't be penalised because he is repaying historic debts that defaulted.

I reached the same conclusion as the adjudicator, but at points my findings varied and I set out the redress in more detail, so I issued a provisional decision (an extract follows and forms part of this final decision) asking for any further evidence or comments by 12 April 2021.

Both parties responded prior to this deadline.

Extract from my provisional decision

Varooma asked for some information from Mr H before it approved the loan. It asked for details of his income, living expenses and about any credit cards or loans he was repaying. It carried out a credit check. This gave very high-level information, looking at Mr H's unsecured debt to income ratio and balance. It verified his income using his bank statements. And it asked about the purpose of the loan which was home improvements. From these checks combined Varooma concluded that Mr H would have £238.89 of disposable income remaining after making its loan repayments and so the loan was affordable.

It seems these checks were proportionate, but I'm not persuaded that Varooma made a fair lending decision based on the information it gathered. Whilst Varooma has explained how it verified Mr H's income, I can't see it did the same for his expenditure. It had the information it needed in Mr H's bank statements but it doesn't seem that it fully considered Mr H's expenditure. Had it done so, in addition to seeing that the pounds and pence affordability of the loan varied from its analysis based on Mr H's declared living costs, it would have seen that Mr H was making weekly repayments to a payday lender and several nominal payments each week to at least four different debt collections agencies. This was not something he had declared on the application call when asked about current credit commitments. And I think they were indications that there was a risk Mr H might not be able to sustainably meet his repayments.

As our adjudicator said, Mr H's credit file shows that he had defaulted on multiple accounts in the last 24 months. Varooma argues that Mr H shouldn't be penalised for historic defaults that he was gradually repaying. But I'm not persuaded it is fair to Mr H to categorise his position as having had financial difficulties in the past - and to conclude that Mr H now had no problems managing his money. In the six months prior to his loan application Mr H had defaulted on three credit accounts. And I think Varooma ought to have realised from the data it had gathered that it was most likely Mr H's finances were not stable and that there was a risk he wouldn't be able to sustainably repay this loan.

In addition, Mr H's income level meant it may have been harder for him to sustain his credit repayments – and this loan repayment of £241.11 represented a significant proportion of his monthly income which seems to have been around £960 a month. As Varooma was aware, Mr H's income wasn't a fixed monthly sum - there was some variability - which increased the risk of his borrowing. Mr H was entering into a long-term commitment for high-cost credit and would need to make monthly repayments for three years. And there was the possibility of losing his car if he couldn't make his repayments.

So I think there were clear indications that there was a high risk that Mr H might not be able to sustainably repay this loan. And as a responsible lender, I think Varooma ought to have made a different lending decision. It follows I currently think Mr H has lost out because of what Varooma did wrong.

I have also considered whether Varooma acted unfairly or unreasonably in some other way. Mr H has told us it would not reduce his repayments to an affordable level and didn't suspend interest. I have seen earlier correspondence - he contacted them in July 2019 asking to defer the next payment and split it over the remaining payments. Varooma offered to split the deferral over the next two months and Mr H accepted this. I haven't had sight of any more recent correspondence about putting in place arrangement to pay from February 2020 onwards and Varooma hasn't commented on this. Mr H says he was only given the option to pay a lump sum or surrender the car so he surrendered the car as he couldn't find a way to make the repayments.

But I can see from the statement of account that Varooma accepted a reduced monthly payment of £100 six times between March and October 2020. So it seems it did try to assist Mr H. It maybe it could have done more to respond positively and sympathetically to Mr H's financial situation but I haven't currently seen enough evidence to conclude it acted unfairly in this regard.

Putting things right

If I uphold this complaint, as I am planning to, Varooma will have to put Mr H back in the position he would be in had it not made an irresponsible lending decision. This means Mr H should have repaid no more than the capital he borrowed, and he should not have needed to

surrender his vehicle. Mr H has confirmed he has not incurred any notable expenses as a result of surrendering the vehicle so that does not need to be considered in the redress.

Varooma has confirmed that it sold the car for £3213.20 and highlights that as it was a surrender under the terms of Mr H's loan agreement, the settlement was that regardless of what the car sells for the remaining balance is then written-off. But as I don't think Varooma should have given Mr H this loan, it follows that I don't think he should lose out because of Varooma's decision to sell the car at that price.

To work out the fair way to put things right I need to understand the market value of the car. To do this I have reviewed three standard industry price guides that are used for valuing vehicles (CAP, Carzana and Glass's) and assumed the car was in good condition. I've done this as Varooma asked Mr H about the vehicle's condition in its email of 26 November 2020, he said it was in good condition and I can't see it later disputed this after it had collected the car. On this basis I am estimating the market value to have been the average of the trade price valuations from the sources listed above (£5178, £5009 and £4780) - so £4989.

So Varooma should:

- add up the total amount Mr H repaid and deduct this sum from the capital amount of the loan*
- as this will result in Mr H having paid more than he received the overpayments should be refunded along with 8% simple interest* (calculated from date of the overpayments until the date of settlement)*
- refund £4989 to Mr H to reflect the estimated market value of his vehicle that he had to surrender to repay in part a loan he shouldn't have been given*
- remove any adverse information recorded on Mr H's credit file in respect of the loan*

**HM Revenue & Customs requires Varooma to deduct tax from this interest. Varooma should give Mr H a certificate showing how much tax it's deducted, if he asks for one.*

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As I said earlier, both parties responded to the provisional decision. Mr H said he had nothing further to add. Varooma responded saying it agreed to refund, with interest, all payments Mr H made in excess of the value of the capital he borrowed. It confirmed it had removed the adverse information relating to the loan from his credit file in December 2020. But it said my direction to refund the market value of Mr H's was unreasonable and it would not do this. It made the following points in support of its position:

- Mr H chose to surrender his car as he couldn't make any further repayments.
- The value Varooma realised is good; during the pandemic there are no test drives, everything is done online.
- That aside, the number of cars that sell at trade value at auction is very low, Varooma's business model is to reserve at 70% of trade value. Selling privately is not feasible for logbook loan companies.
- Varooma has already written off the balance of Mr H's loan and made no profit on this lending.

- The comment '*Mr H says he was only given the option to pay a lump sum or surrender the car*' is not true.
- It will agree to put Mr H in the exact same position as to before he took out the loan.

I have considered all these comments carefully. In accepting that it needs to repay to Mr H everything he paid over the capital value of the loan, with interest, it seems Varooma accepts it should not have lent to Mr H. And it has also said it agrees Mr H should be put back in the position he was in before he took out the loan. Unfortunately, it can't do this as it has now sold his vehicle.

And I don't think it's reasonable not to consider the fact Mr H lost his car as a consequence of being given a loan that Varooma ought to have realised wasn't sustainably affordable for him. In addition to the money he had to spend on interest and charges, he no longer has the asset he secured the loan against. Whilst this could be an acceptable outcome if he breached the terms of a loan that was lent responsibly, that is not the case here. And for him to replace the vehicle – and so be in the position he was in before he took out the loan – Varooma needs to pay him the estimated market value of the car from the time it was sold.

As I have found Varooma was at fault in its lending decision, fair redress must consider all of Mr H's financial loss. Had Varooma not approved the loan he would not have been in the position that led to his decision to surrender his car.

With regards Varooma's penultimate comment, Mr H's comment has already been acknowledged to be inaccurate in the provisional decision where I noted reduced monthly repayments were accepted for a period of time.

Varooma raises the impact of the pandemic on vehicle values, but this has been considered as the three valuations are all from November 2020 and so they are reflective of the market at the time of the sale. It also explained its reserving policy and why it sells at auction. But these are commercial decisions it has made that do not reduce the financial loss Mr H suffered and what he might reasonably have to pay to replace his car. And the calculation of the redress would not be affected by the level of profit or the size of the loss a lender has made on a loan that we have concluded should not have been given.

So for the reasons set out above I remain satisfied the redress is fair and reasonable in the circumstances of this complaint. It follows I have found no grounds to change my findings or the outcome in my provisional decision and I am upholding Mr H's complaint.

Putting things right

Varooma must put Mr H back in the position he would be in had it not made an irresponsible lending decision. This means Mr H should have repaid no more than the capital he borrowed, and he should not have needed to surrender his vehicle.

So Varooma should:

- add up the total amount Mr H repaid and deduct this sum from the capital amount of the loan
- as this will result in Mr H having paid more than he received the overpayments should be refunded along with 8% simple interest* (calculated from date of the overpayments until the date of settlement)
- refund £4989 to Mr H to reflect the estimated market value of his vehicle that he had to surrender to repay in part a loan he shouldn't have been given
- remove any adverse information recorded on Mr H's credit file in respect of the loan (I note it has confirmed this was done in December 2020).

*HM Revenue & Customs requires Varooma to deduct tax from this interest. Varooma should give Mr H a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr H's complaint. Greenlight Credit Limited (trading as Varooma) must now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 6 May 2021.

Rebecca Connelley
Ombudsman