

The complaint

Mr G complains that Ferratum UK Ltd was irresponsible in its lending to him.

What happened

Mr G was provided with one loan by Ferratum in October 2018. The loan was for £200 with just under £250 repayable the following month.

Mr G says that at the time of the loan he had several other short term loans with other providers and had several late and missed payments recorded on his credit file. He has explained that he was gambling heavily and that this would have been clear from the checks carried out on him by gambling websites and the transactions in his bank statements. Mr G says that Ferratum didn't carry out adequate checks before the loan was provided.

Ferratum says that before the loan was provided information about Mr G's income and expenses was requested. It says Mr G was required to provide accurate information and it was reasonable it would rely on what was provided. It said it also carried out a credit check and based on the information it received the loan appeared affordable. It says that the loan wasn't repaid on time and it was contacted about Mr G entering a debt management plan and so the account was transferred to its collections partner.

Our adjudicator didn't uphold this complaint. She didn't think it would have been proportionate for Ferratum to have carried out further verification and based on the checks the loan appeared affordable.

Mr G didn't accept our adjudicator's view. He reiterated that he didn't think that the checks carried out before the loan was provided were adequate. He said that although it was his first loan thorough checks should have taken place.

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 general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Ferratum needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure that Mr G could repay the loan in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Ferratum should fairly and reasonably have done more to establish that any lending was sustainable for a consumer. These factors include:

- the *lower* a customer'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 *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I think that it is important for me to start by saying that Ferratum was required to establish whether Mr G could sustainably repay his loan - not just whether the loan payment was affordable on a strict pounds and pence calculation.

Of course, the loan payment being affordable on this basis might be an indication a consumer could sustainably make their repayment. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC"), defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr G's complaint.

Mr G was provided with one loan by Ferratum. I understand the point he has made about all lending needing to be subject to thorough checks, but as set out above I think it is reasonable that less thorough checks can be proportionate in the early stages of a lending relationship.

In this case, Mr G's income was recorded as around £1,500. The repayment amount for the loan was just under £250. Having considered that this was Mr G's first loan and noting the term and repayment amount compared to his income I think that asking about his income and expenses and carrying out a credit check were proportionate checks.

It is reasonable to expect that the information provided by a consumer is accurate. However, I would expect further checks to take place if the information provided raised concerns. I have looked at Mr G's application and can see his income is declared as around £1,500 and he is noted as being employed. I think it reasonable this information was relied on. The application I have seen doesn't show any information regarding Mr G's expenses. Ferratum has said that he was asked about these and I think it reasonable that Mr G would have provided some details. However, I wouldn't expect at this stage in the lending relationship and considering the size of the loan, that copies of his bank statements would have been requested. Therefore, while I understand the points Mr G has made I do not find at this point the level of verification and checks were required that would have shown the issues Mr G was experiencing and that the loan was unsustainable.

Ferratum carried out a credit search and while this showed a historic default no defaults or delinquent accounts were recorded in the previous 12 months. Having looked through the credit search information I do not find I can say that this raised concerns that meant further checks were needed.

Overall, while I understand the points Mr G has raised, I find it reasonable to accept that the checks in the early stages of a lending relationship such as this can be less thorough and still considered proportionate. Had Mr G continued to be provided with loans by Ferratum then I would have expected more detailed checks to take place. Based on what I have seen I do not find that I have enough to say that Ferratum should have been reasonably aware that this loan wasn't sustainably affordable for Mr G therefore I do not find I have enough to uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint against Ferratum UK Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 15 July 2021.

Jane Archer
Ombudsman