

## The complaint

Mr P complained that UK Credit Limited trading as UK Credit lent to him irresponsibly and provided him with unaffordable lending.

## What happened

UK Credit provided loans to Mr P as follows:

Loan	Date	Amount	Term	Monthly repayment	Total amount payable
1	11/02/2015	£3,500	48 months	£134.40	£6,451.20
2	23/05/2017	£3,850	48 months	£147.84	£7,096.32

When Mr P complained to UK Credit it didn't uphold his complaint so he brought his complaint to us. One of our investigators looked at the complaint and thought that UK Credit had fairly provided the first loan but that it shouldn't have provided loan 2.

Our investigator explained why he was recommending that the complaint about loan 2 should be upheld and he set out directions indicating what UK Credit should do to put things right.

Mr P has told us he accepted what our investigator said in his view letter.

UK Credit disagreed. In summary, it mainly said that its checks had been reasonable and proportionate and it hadn't seen any evidence to suggest the loan wouldn't be sustainably affordable.

So, as the complaint hasn't been resolved, 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 this complaint. Having done so, I am upholding Mr P's complaint about loan 2 for broadly the same reasons as our investigator. I'll explain why.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably 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 proportionate check might also require the lender to 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 looked affordable, a lender still needed to think about whether there was 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 significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

Mr P hasn't objected to what our investigator said with respect to not upholding his complaint about loan 1. So I don't think I need to say more about loan 1 except that I've reviewed this loan and independently reached the same conclusion as our investigator. I haven't seen enough to say that UK Credit shouldn't have provided this loan – so I'm not upholding this part of Mr P's complaint. But, like our investigator, I don't think UK Credit should've provided loan 2.

I have reviewed the information UK Credit gathered when it agreed to provide loan 2. UK Credit checked payslip information to verify Mr P's declared income and recorded that his pay was around £1,544 per month.

Mr P told UK Credit he currently lived as part of another household, so he had no responsibility for all the usual household expenses. He said he would shortly be moving into a new job with accommodation provided when he would only have to pay for food and housekeeping with rent and priority household expenditure met by his employer.

UK Credit checked Mr P's credit file to see how much he was already paying to other creditors and gain an understanding of his credit history. After reviewing the information on the credit report it obtained and speaking to Mr P, UK Credit made allowance for Mr P paying around £465 each month towards his existing credit commitments.

Based on the information Mr P supplied, and the results of its checks, UK Credit concluded that Mr P should have more than £1,000 surplus cash each month and so the repayments on the new loan should've been affordable for him.

But I don't think UK Credit thought carefully enough about the bigger picture and what conclusions it could fairly draw based on all the information it had gathered.

Whilst having other outstanding lending or even an impaired credit history wouldn't be unusual for a borrower applying for this type of expensive borrowing, and it wouldn't necessarily be a bar to lending, I don't think UK Credit took properly into account what the information it had gathered showed about Mr P's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner

UK Credit saw that Mr P was already spending £476 - almost a third of his net monthly income - making the monthly repayments on his two existing loans and a hire purchase agreement. As well as this, he also had to pay his credit cards and his mail order account. I think that his current debt servicing costs took up such a significant proportion of Mr P's take home pay it was a clear indication that Mr P was, in reality, already experiencing financial difficulty. And that's borne out by other information UK Credit saw showing that Mr P had exceeded available credit limits on his credit cards and he already had two other loans shown on the credit report that he hadn't finished paying for – one of them in arrears for the last six months and now three payments behind.

I think Mr P would've needed to pay more than the amount UK Credit appears to have made allowance for in order to make any significant inroads into clearing his credit cards and his mail order account within a reasonable space of time – which would've added to his debt servicing costs. And I've also kept in mind that Mr P told UK Credit he intended to spend this loan money – so it would be adding to his overall indebtedness and extending the time he would be repaying expensive borrowing of this type.

Taking all these things into account, I think UK Credit ought reasonably to have been aware that taking this additional, costly lending was likely to further over-stretch Mr P's finances beyond the point where the portion of his income he would need to spend every month over the loan term just to meet his credit commitments would be sustainable for him

In my opinion, as a responsible lender, UK Credit should've realised that Mr P would likely struggle to repay this loan – especially bearing in mind the 4 year loan term.

In coming to my decision, I've thought carefully about everything UK Credit has said, including its comments made in response to our investigator's view letter. The fact Mr P successfully made the loan repayments until his work situation changed doesn't mean that he was able to do so sustainably.

And although Mr P had told UK Credit that the loan showing in arrears on its credit report had been settled, I don't think it would be reasonable to accept this at face value when what Mr P said contradicted the information UK Credit had obtained. It saw nothing else to show he was correct in saying this. Mr P had failed to provide bank statements that UK Credit asked to see. I have noted that UK Credit did include ongoing payment for this loan in its affordability assessment which I think was the correct approach to take.

To sum up, thinking about all the information UK Credit had gathered, for the reasons I have explained, I can't reasonably say that it made a fair lending decision based on the information in front of it. I don't think UK Credit was able to safely conclude that its loan would be sustainably affordable for Mr P.

Our investigator didn't recommend that UK Credit should pay any additional redress. Mr P hasn't commented on that and I haven't seen anything which makes me think UK Credit acted unfairly or unreasonably towards Mr P in any other way.

So I'm not awarding any additional redress.

But UK Credit shouldn't have provided loan 2 and so it needs to put things right.

### **Putting things right**

I think it is fair and reasonable for Mr P to repay the capital amount that he borrowed when he took out loan 2 because he had the benefit of that lending.

But he has paid extra for lending that should not have been provided to him.

In line with this Service's approach, Mr P shouldn't repay more than the capital amount he borrowed.

If UK Credit has sold any outstanding debt it should buy this back if able to do so and then take the following steps.

Otherwise, UK Credit should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr P received as a result of having been given loan 2. The repayments Mr P made should be deducted from this amount
- if this results in Mr P having paid more than he received, then any overpayments should be refunded along with 8% simple interest\* (calculated from the date the overpayments were made until the date of settlement)
- if there is a shortfall in repayments which leaves a capital amount outstanding, then UK Credit should try and arrange an affordable payment plan with Mr P bearing in mind its obligation to treat Mr P sympathetically and fairly if he still needs further time to pay
- whilst it's fair that Mr P's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So UK Credit should remove any negative information recorded on Mr P's credit file regarding loan 2.

\*HM Revenue & Customs requires UK Credit to deduct tax from this interest. UK Credit should give Mr P a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

I uphold Mr P's complaint about loan 2 and direct UK Credit Limited trading as UK Credit to take the steps I've set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 22 July 2022.

Susan Webb  
**Ombudsman**