

The complaint

Mr P says Oakbrook Finance Limited (trading as Likely Loans) lent to him irresponsibly.

What happened

Mr P took out two loans from Likely Loans as summarised below.

loan	taken out	repaid	value, £	term in months	monthly repayment, £
1	12/10/2018	30/10/2018	2750	36	166.56
2	15/04/2019	-	1600	12	185.54

He says the lender failed to ask for enough information, so its checks were insufficient. Had it done so, he says it would have seen that he might not be able to sustainably repay the loans.

The investigator did not uphold Mr P's complaint. She said the lender's checks were proportionate and there was nothing in the information it gathered to suggest Mr P was struggling financially at the time.

Mr P disagreed, saying more thorough checks into his financial situation would have showed that whilst the loans may have seemed affordable on a pounds and pence basis the sustainability was questionable.

As agreement wasn't reached the complaint was passed to me to make a decision. I reached a different conclusion to the investigator, so I issued a provisional decision (an extract follows and forms part of this final decision). I asked both parties to submit any comments before I issued a final decision.

Extract from my final decision

I can see Likely Loans asked for some information from Mr P before it approved the loans. For loan 1 it asked for details of his annual income (£62,000) and the purpose of the loan (home improvements). It checked his income using an income verification tool. It also checked Mr P's credit file to understand his existing monthly credit commitments and credit history. For loan 2 it asked for details of his annual income (£74,000) and the purpose of the loan (home improvements). It checked his income using an income verification tool and estimated his living costs using national statistics. It also checked Mr P's credit file to understand his existing monthly credit commitments and credit history.

From these checks combined Likely Loans concluded Mr P had enough monthly disposable income to afford to repay the loans.

I don't think the checks were proportionate. I'll explain why.

Loan 1

Although the loan might've looked affordable based on the figures Mr P gave and the information Likely Loans had gathered about his credit history and commitments, I think that Likely Loans should've carried out more thorough checks into Mr P's financial situation. It was agreeing to lend such a substantial sum over three years. I can't see it asked about his living costs at all. So I don't think it could've known if the loan was sustainably affordable, or not.

Mr P has provided bank statements for the months prior to his loan application so I've looked through these to see what the lender would most likely have found out had it done better checks. I am not saying the lender had to request bank statements, but they are one way for me to get a reasonable picture of Mr P's finances at the time.

From them I can see that had Likely Loans looked in more depth at Mr P's finances it would most likely have seen that he was having serious problems managing his money. Mr P was living in his overdraft, using payday loans frequently and spending significantly in excess of his declared income on gambling.

So I'm satisfied that proportionate checks would most likely have shown that Mr P would not have been able to make the repayments to this loan without borrowing further and/or suffering significant adverse consequences. It follows I think Likely Loans was wrong to approve loan 1.

Loan 2

Loan 2 was for less money and over a shorter term. But given that I've concluded that proportionate checks for loan 1 would have led Likely Loans, as a responsible lender, to decline loan 1 it's logical to conclude that anything less than complete checks of Mr P's actual income and expenditure for loan 2 cannot be considered proportionate. As had it done the right thing at the time of loan 1 it would have been aware of Mr P's financial history.

I accept his circumstances may have changed – he told the lender his salary had increased to £74,000 and the credit check Likely Loans completed showed his overall indebtedness had reduced slightly. So it could have been Mr P's finances had stabilised in the six months since loan 1 – he had after all been able to repay that loan early. However, I can't see that Likely Loans carried out the checks needed to know this. It did make an assumption about his living costs this time using national statistics, but for the reason set out above I think it needed to verify his actual disposable income.

So again I have looked at Mr P's bank statements to get an idea of what Likely Loans would have found if it carried out proportionate checks. They show Mr P was still living in his overdraft, using payday loans frequently and gambling heavily.

This means I'm satisfied that proportionate checks would most likely have shown that Mr P would not have been able to make the repayments to this loan without borrowing further and/or suffering significant adverse consequences. It follows I think Likely Loans was wrong to approve loan 2.

I have then considered whether Likely Loans acted unfairly or unreasonably towards Mr P in some other way. As part of his complaint he said that it was unfair Likely Loans were so inflexible in terms of the interest rebate on loan 1 when he settled one day after the cooling off period. But whilst Mr P may have been frustrated by this, I can't see that the lender breached the terms of the agreement. It follows I don't find that the lender acted inappropriately towards Mr P in any other way.

I then set out what Likely Loans would need to do to put things right if I upheld the complaint.

Both parties responded to my provisional decision, accepting the conclusion I set out.

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 general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice – is set out on our website. And I've followed it here.

As neither party sent in any new evidence or comments it follows I have no reason to depart from the findings or outcome set out in my provisional decision. So I am upholding Mr P's complaint.

Putting things right

It's reasonable for Mr P to repay the capital amounts that he borrowed as he had the benefit of that money. But he has paid interest and charges on loans that shouldn't have been given to him. So he has lost out and Likely Loans will need to put things right.

It should:

A) refund any interest and charges Mr P paid on loan 1

B) remove all interest, fees and charges from the balance on loan 2, and treat any repayments made by Mr P as though they had been repayments of the principal on the outstanding loan

C) if this results in Mr P having made overpayments then these should be paid back to Mr P with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement

D) if there is still an outstanding balance owing then the amounts calculated in "A" should be used to repay this. Any surplus should be paid to Mr P. However if there is still an outstanding balance then Likely Loans should try to agree an affordable repayment plan with Mr P

E) remove any adverse information recorded on Mr P's credit file in relation to the loans

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

My final decision

I am upholding Mr P's complaint and Oakbrook Finance Limited (trading as Likely Loans) must 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 9 September 2021.

Rebecca Connelley
Ombudsman