

The complaint

Mr M complains that UK Credit Limited lent to him irresponsibly without doing sufficient affordability checks to assess whether he could reasonably afford the loan. He also complained that interest charges weren't thoroughly explained and he told us he didn't realise how much the loan would cost.

What happened

Mr M was given a single loan by UK Credit. Mr M told UK Credit that he would use the loan to help with additional costs he had incurred following a house move and a new baby.

The main loan details were as follows:

Date of Loan	Loan Amount	Loan Term (months)	Monthly Repayment	Total amount repayable	Loan status
30/4/2018	£8,000	36	£357.60	£12,873.60	Outstanding

When Mr M complained to UK Credit it didn't uphold the complaint so Mr M brought his complaint to us. One of our investigators looked into what happened and she felt that this was a complaint we should uphold.

UK Credit disagreed with our investigators view. It mainly said its credit checks showed that substantial payments were being made towards a recent default, Mr M had said a county court judgement had already been repaid although this wasn't yet reflected on the credit file and that the loan had looked affordable on the figures it gathered. It said the root cause of his recent financial difficulty was change in his home and family circumstances but there was no reason to think he wouldn't be able to continue working as normal and generate surplus income of more than £1,000 each month.

UK Credit also provided a more recent credit report and said that based on the evidence available, in the absence of bank statements, there didn't seem to be any worsening of his financial situation as a result of taking its loan out.

As this complaint hasn't been resolved it now 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 Mr M's complaint. I'm sorry UK Credit feels our investigator didn't properly consider its response to her view or explain things as well as she

could've done. I'd like to reassure UK Credit that I've looked at the complaint afresh – and I've independently reached the same conclusions our investigator. I hope that setting out my reasons will help explain how I've reached my decision and assist UK Credit to develop its own approach to irresponsible/unaffordable lending complaints.

There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr M's complaint. Before agreeing to lend, lenders must work out if a borrower can 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. And it's important to keep in mind that when working out if a loan looks likely to be affordable a lender must take a 'borrower focussed' approach and think about the impact of the lending on the customer. The lending decision shouldn't just be about the business risk to the lender of not getting its money back. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

I've kept all these things in mind when thinking about Mr M's complaint.

UK Credit gathered some information from Mr M before it agreed the loan. It asked him for details of his income and verified this by doing an online check. UK Credit also did a credit check and during a phone call it asked Mr M about his normal monthly spending.

Mr M's average monthly income was recorded as £4,500. He gave UK Credit an estimate of his living costs based on a percentage of his earnings – UK Credit worked this out at around £803 per month.

After looking at its credit checks, UK Credit worked out that Mr M was paying around £824 to other creditors so he should still have more than £1,000 surplus cash left *after* paying for its loan. UK Credit felt that this showed the monthly repayment on this loan should've been affordable for him and this led UK Credit to conclude that it was fair to lend to him.

Our investigator didn't think UK Credit did a proportionate check before agreeing to lend but she said in any event, the lending decision was unfair based on the information UK Credit had in front of it.

I've thought carefully about everything UK Credit has said, including its response to our investigator's view.

I've noted that UK Credit thought its checks were fair and reasonable. But, I don't think I need to say anything more about whether the checks done were proportionate as this doesn't affect the outcome of this complaint.

Like our investigator, the main reason why I think it's fair and reasonable to uphold this complaint is because I think UK Credit's checks showed clear warning signs that Mr M was experiencing financial difficulty. And so I don't think UK Credit made a fair lending decision

on this occasion when it agreed to provide this loan to Mr M based on the information it had in front of it.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application.

But UK Credit could see that Mr M had a substantial amount owing on an account that had defaulted just 4 months earlier. And whilst he had reduced the default balance during that period by almost £7,000 this still left an outstanding default balance of more than £47,500. UK Credit also saw that Mr M had a relatively recent county court judgement with a balance of nearly £7,000 outstanding. It disregarded information relating to another county court judgement when he said it had been repaid. But I think it ought to have been concerned that this was for an unpaid utility bill – generally a clear sign that the household finances had been severely over-stretched.

Despite the early signs of some positive steps towards slowly improving his financial situation, given this amount of overall indebtedness and his track record of serious money problems going back some years, I don't think UK Credit thought carefully enough about what this information revealed about the likely reality of Mr M's overall financial circumstances.

UK Credit should've realised that the information it had gathered suggesting that Mr M had around £1,000 spare cash each month was significantly at odds with what its credit checks showed. I think this should've alerted UK Credit to the risk that it couldn't safely rely on what Mr M had told it about how he spent his money or his estimated outgoings as, to my mind, he had unexplained levels of problematic debt.

Despite what Mr M told UK Credit about why he'd had money problems, I think the bigger picture showed all the hallmarks of a person still in serious financial difficulty. I can see why UK Credit was encouraged by the fact that Mr M had made a start on reducing his default balance.

But this wasn't significant in the overall context of Mr M's debt – and I think it's reasonable to think that if Mr M had really had any spare cash he would've made more meaningful inroads into clearing more of this debt before it had become so problematic. And I don't think it was ever satisfactorily explained why he needed such a large loan from UK Credit as the additional costs Mr M described could, at least in part, have been absorbed by the surplus income UK Credit thought he ought to have.

This bears out my concern that the disposable income figure UK Credit worked on wasn't, in reality, dependable. And thinking about all the information UK Credit had gathered, I don't think it was able to be satisfied on what it had in front of it that it could safely conclude that its loan would be sustainably affordable for Mr M, especially bearing in mind that he'd need to spend around a quarter of his take home pay just on servicing debt.

Whilst UK Credit said it doesn't consider this a significant proportion, I think that UK Credit should've recognised that having to make this level of debt repayment meant there was a real risk that he would be unable to repay its loan in a sustainable way over the loan term - bearing in mind also that his costs would be likely to keep on increasing given what he'd told UK Credit about his family circumstances.

In coming to my decision, I've taken into account what UK Credit said about its more recent credit report showing some improvement in Mr M's overall financial situation. But I haven't seen enough to make me think its loan wasn't detrimental overall to Mr M. Some of the debt

shown on the credit checks UK Credit saw during the loan application no longer appears on the more recent report – and I can see he repaid his other county court judgement.

But he also took out another large loan (£10,000) with a different lender around 18 months after taking this loan which bears out my concern that Mr M's financial situation wasn't sustainable over the loan term - as I think was reasonably foreseeable.

This new credit report shows him paying more per month towards his credit commitments. Given that his monthly repayment on this expensive loan makes up around 28% of his total credit spend each month, and he is tied in to a 36 month term, I think it's fair for me to say I haven't seen enough to make me think the loan UK Credit provided hasn't been detrimental to Mr M overall.

So, I am planning on upholding Mr M's complaint that he should not have been given the loan.

Our investigator didn't recommend that UK Credit should pay any additional redress. Mr M hasn't commented on that but I've thought about what Mr M has said about the high cost of the loan. I think there was a large amount of interest payable on the loan and I can appreciate that Mr M might now feel this was unfair.

I've carefully listened to the call recording when the loan was set up. UK Credit explained the overall cost of the loan and the monthly repayments – which Mr M confirmed were affordable for him.

The loan documents set out the terms and the amounts of interest payable and it showed the full cost of the loan over the term. Mr M had to actively engage in the loan application process before the lending was agreed.

Taking everything into account, I think Mr M was aware he was taking a high cost loan on terms he seemed happy to agree to at the time. So I can't fairly say that the high cost of this credit is a reason for me to award any additional redress.

But I don't think UK Credit should have agreed to provide the loan to Mr M. And as he has been further indebted with expensive lending that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what UK Credit did wrong.

So, I think UK Credit needs to put things right.

Putting things right

I think it is fair and reasonable for Mr M to repay the capital amount that he borrowed, because he had the benefit of that lending.

But he has been charged extra for lending that should not have been provided to him. In line with this Service's approach, Mr M shouldn't repay more than the capital amount he borrowed.

UK Credit should do the following:

- add up the total amount of money Mr M received as a result of having been given the loan. The repayments Mr M made should be deducted from this amount.
- If this results in Mr M 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 any capital balance remains outstanding, then UK Credit should attempt to arrange an affordable/suitable payment plan with Mr M.
- Whilst it's fair that Mr M'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 M's credit file regarding the loan.

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

My final decision

I'm upholding Mr M's complaint and UK Credit Limited should take the steps set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 23 March 2022.

Susan Webb
Ombudsman