DRN-3014255

The complaint

Mr P complains that Oakbrook Finance Limited trading as Likely Loans (Likely Loans) provided lending to him which was unaffordable and irresponsible. He says they should have looked at his financial circumstances in more detail before agreeing to the loans as he could not afford them.

What happened

In April 2018 Mr P applied for a loan of £500 repayable over 12 months from Likely Loans for debt consolidation. The loan was approved and paid to him with repayments set at £57.98 per month at an interest rate of 89.9% APR. Mr P maintained the repayments on this loan for 7 months until he asked for a top up loan.

Mr P applied for a top up loan of £700 over 24 months in November 2018. This loan was approved and paid in November 2018. At the date of the second loan, there was £246.77 outstanding on the original loan. The further borrowing increased the total loan to £946.77 with a new monthly payment of £71.92 for 24 months at 89.9% APR.

Mr P maintained his payments for 11 months until he couldn't continue, and then he agreed a reduced payment with Likely Loans. He has maintained this reduced repayment.

Likely Loans have told us that as part of the checks they undertake before approving any lending, they looked at Mr P's income, his credit file and lending history, and determined that on both occasions, lending was affordable for him.

Our investigator didn't uphold Mr P's complaint. She thought that the checks that Likely Loans undertook to assess creditworthiness and affordability were fair and proportionate.

Mr P has asked for an ombudsman's decision as he thinks Likely Loans should have looked at his bank statements and they would have then seen that he was gambling and living off an overdraft.

I issued a provisional decision on the complaint. My provisional findings were as follows:

In cases like this, I have to look at what checks the bank carried out when it made the decision to approve the lending and consider whether those checks were proportionate and in accordance with the Consumer Credit sourcebook (CONC) 5.2. This involves looking at

what information was available to the lender at the time, and whether based on that information, further checks should have been made at each application.
Likely Loans say in line with their internal processes, they performed a standard credit assessment, including a review of his credit report with the credit reference agency, and also took into account any financial commitments, insolvency records, delinquency records, county court judgements and credit enquiries.

Loan 1

Likely Loans say that at the date of the first application, Mr P had a declared income of £25500. The credit reference agency information from the file which was extracted at the time of the loan showed that Mr P had total debts of £1200 and 6 active CAIS entries with no late or missed payments. They calculated that allowing for the repayments on the loan Mr P already had, other credit commitments and the new loan repayment of £57.98 per month would leave Mr P with £1565 for his living expenses and bills.

I consider that the checks that Likely Loans carried out on the information they had here was proportionate for the credit applied for. I don't think there was any reason for them to ask for additional information.

Loan 2

At the time of the top up loan application in November Mr P declared an income of £25500. There was £246.77 outstanding on the original loan and the further lending increased the loan to £946.77 with a new monthly payment of £71.92 for 24 months at 89.9%.

The credit checks undertaken by Likely Loans showed that Mr P now owed £7500 to creditors with 8 active CAIS. Apart from one account which was defaulted, all other creditors were up to date. Likely Loans say that the repayment of £71.92 per month was therefore deemed affordable at the time as the disposable income after loan repayments was £1057.54.

Although Likely Loans are not able to provide us with the full credit reports that they viewed at the time of the loan application, they have extracted full report from a credit reference agency as of May 2020. This shows that a county court judgement was entered against Mr P in September 2018, just prior to the top up loan, and that should have been visible to Likely Loans at the time.

I am also concerned that in the 7 months since the original loan, despite making the payments, Mr P's credit report shows that his debt has increased by over £6000 and he was showing one new default. I think this should have flagged to Likely Loans that Mr P's financial situation was changing, he was becoming more indebted, starting to miss payments, and that should have alerted them to additional checks being appropriate. I therefore don't think that the checks that were undertaken prior to the loan increase in November 2018 were proportionate, and bank statements and income and expenditure information should have been sought to establish what the full picture was.

Had Likely Loans asked for bank statements they have seen that for the whole of 2018 Mr P was living in overdraft. When he was paid his salary, he transferred an amount out to pay his rent and phone bills, and then almost all of the excess available income was being used for online gambling. There was also evidence of increased use of other short-term lending through credit cards and an online high interest credit lending account throughout 2018 which was all being used to support his online gambling. In March 2018 Mr P took out a large loan which was used up immediately in rent payments, overdraft and a payment to his *wife, and he was again in overdraft. I think that if Likely Loans had seen this pattern of spending, they would have questioned the sustainability of repayments.*

I consider that Likely Loans have failed in their obligations to assess creditworthiness in accordance with CONC 5.2.1, that on balance, the information that was available should have indicated further checks were necessary, and had those checks been undertaken, Likely Loans should have realised that increasing this customer's indebtedness would adversely affect his financial situation.

I note that in October 2019 Mr P reported to Likely Loans that there was a change to his financial circumstances and he was working with Step Change, and Likely Loans say that there was no evidence to suggest that Mr P couldn't afford his monthly payments at the date of the borrowing and has experienced a change of circumstances since. I disagree, as I think there were indicators at the time of the second loan that Mr P was already struggling with his finances.

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.

I sent Mr P and Likely Loans a copy of my provisional decision. Both have replied and accepted my provisional decision and so I'm making my final decision for the reasons I've summarised above.

My final decision

I'm upholding Mr P's complaint about Oakbrook Finance Limited trading as Likely Loans and directing them to reimburse Mr P any charges and interest paid by him on the loan provided in November 2018. They will need to calculate and deduct from that figure any interest that would have been due if the first loan had continued to be paid until its conclusion date.

They will also need to pay Mr P 8% interest on any of the charges and interest paid by him from the date they were paid until the date of settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 23 September 2021.

Joanne Ward
Ombudsman