DRN-3020054

Financial Ombudsman Service

The complaint

Mrs S complains about a loan provided to her by UK Credit limited, ("UK Credit") which she says was unaffordable.

What happened

Mrs S was given a guarantor loan by UK Credit. She took the loan out in July 2018 for £7500 and was due to repay it in 60 monthly instalments. The repayments were for around £262 and the total that she would have to repay was around £15,660. There is an amount that is outstanding.

One of our investigators looked into Mrs S's complaint. He thought that UK Credit carried out sufficient checks before agreeing to provide this loan and that there wasn't anything in the information it gathered which meant it shouldn't have lent to Mrs S. Our investigator didn't think UK Credit had been wrong to provide Mrs S with the loan.

Mrs S didn't agree with our investigator's view. She said she still felt UK Credit unfairly provided her with a loan.

As the complaint hasn't been resolved informally, it comes to me, an ombudsman, 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 when deciding Mrs S's complaint.

General principles and questions I need to think about when deciding whether to uphold Mrs S'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. 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 things like 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.

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 looks affordable, a lender still needs to think about whether there's 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 more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income)

the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income)

the *longer* the period of time a borrower will be indebted (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

I've kept all of this in mind when thinking about whether UK Credit did what it needed to before agreeing to lend to Mrs S and thought carefully about the following key questions:

Did UK Credit complete reasonable and proportionate checks to satisfy itself that Mrs S would be able to repay her loan in a sustainable way? If so, did it make a fair lending decision? If not, what would reasonable and proportionate checks have shown at the time?

what checks did UK Credit do?

UK Credit gathered some information from Mrs S before it agreed the loan. It asked her for details of her income and verified this by looking at a payslip. It then asked Mrs S how much she was paying towards housing and used Office of National Statistics data to estimate her living costs. It then added an amount that Mrs S was paying towards creditors and then this loan repayment. And it did a credit check to assess how much she was already repaying to other creditors.

Mrs S told it she received £2943 in income a month. UK Credit told us that it was satisfied that Mrs S received this after it verified her information. Mrs S then told it she paid £300 towards housing costs as well as around £51 to repay historic defaults. It then worked out that she would have living costs of £704. It then added this loan repayment.

UK Credit worked out that this left Mrs S with disposable income which meant that the monthly contractual instalments of around £262 that she had signed up to make on this loan should have been affordable for her.

did UK Credit do proportionate checks?

I've carefully considered whether the information that UK Credit gathered at the time should reasonably have triggered further checks. On balance, I don't think that the information UK Credit had collected about Mrs S's financial situation was enough to prompt a reasonable lender to think it needed to do further or more in-depth checking.

The credit report that UK Credit acquired showed that Mrs S hadn't taken on any credit commitments. She did have some historic defaults and I can see that UK Credit discussed these with her and accepted the reasons she gave for this.

So, I think it's fair to say that UK Credit could see that Mrs S had some adverse information on her credit file. But it did discuss this with Mrs S and given the type of lending, I think a lender would reasonably expect to see some adverse information on its customer's credit history. And, looked at overall on what it had in front of it, I think it would have been fair for UK Credit to have considered that Mrs S was managing her finances well since these defaults had occurred.

did UK Credit make a fair lending decision?

Taking things as a whole, I think it would have been reasonable for UK Credit to consider that the monthly repayments on its loan were affordable for Mrs S. But I've needed to see overall whether UK Credit made a fair lending decision based on what it had in front of it, and from what I have seen, I think it did.

I think the checks that UK Credit carried out before lending to Mrs S were reasonable and proportionate. I think it was reasonable in the circumstances for UK Credit to have relied on the information that Mrs S provided and what it found in its checks - and this was enough to enable UK Credit to gain a reasonable understanding of her financial situation and see that Mrs S appeared to be managing her money without any significant payment problems. I don't think more in-depth checks – such as requesting bank statements were required.

I don't think there was anything in the information that UK Credit gathered at the time which should have caused the lender any additional concerns about Mrs S 's financial position when she applied for the loan or that ought reasonably to have led UK Credit to the conclusion that her loan application should be declined.

So, I haven't seen enough to be able to uphold her irresponsible lending complaint.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against UK Credit Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 15 December 2021.

Mark Richardson
Ombudsman