

## The complaint

Mr K and Mr K complain that 1st Stop Home Loans Limited (1st Stop) lent to them irresponsibly.

## What happened

Mr K and Mr K are father and son – referred to here as Mr KS (senior - father) and Mr KJ (junior - son). They lived together, although the house was in the name of Mr KS. They were referred to 1st Stop by a broker and they took a secured loan of £28,000 from 1st Stop on 15 December 2017. This was in joint names, payable over seven years. The interest rate was 18% per annum, fixed for five years. Repayments were £656 per month. The purpose of the loan was listed as home improvements and debt consolidation. 1st Stop took a second charge secured on Mr KS' house. The first mortgage was for £56,000 with payments of £571 per month. The property value was £160,000. The loan with 1st Stop fell into arrears in December 2018. In March 2020, Mr KS sold the house, and the loan was paid off.

Mr KS and Mr KJ complained that 1st Stop shouldn't have given them the loan. The payments depended on both their monthly incomes, including Mr KJ's of £1,342. They said Mr KJ had known gambling problems – which 1st Stop didn't investigate enough before they agreed to the loan. They also said they'd been told that the interest rate would reduce after a few months - and it didn't. When Mr KJ left home in late 2018, this meant Mr KS had to make the repayments on his own – and he said that wasn't possible. Because of situation he found himself in, Mr KS said he had to sell the house. He said he sold it for less than it was worth – but he had no alternative. Mr KS and Mr KJ were also concerned that - because of the missed payments, their credit files had been affected. Mr KS says he's now in rented accommodation with no prospect of buying another property.

1st Stop said they'd acted fairly. They said they had no evidence that they agreed to reduce the interest rate after six months. If that was mentioned by the introducing broker, that was a matter which Mr KS and Mr KJ would have to take up with that broker. They said they'd considered the circumstances of both Mr KS and Mr KJ when agreeing to the loan. Joint monthly income was £3,041 and joint outgoings were £1,698. After other expenses of £656 and the 1st Stop loan payment of £656, there was spare income of £367. They said - it was unfortunate that Mr KJ's circumstances had changed – as Mr KJ had left home.

Mr KS and Mr KJ brought their complaint to us. Our investigator said that 1st Stop should've completed more checks when agreeing to the loan. Mr KJ had a known gambling problem, which meant that his income couldn't be relied upon. He'd told 1st Stop that this was under control, but 1st Stop hadn't done the proper checks to make sure it was. He'd seen Mr KJ's bank statements since September 2017. These showed that Mr KJ was spending between £30 and £200 a day with online betting firms. And – he was making payments to payday lenders. The repayments to the loan depended on Mr KJ paying his share – as Mr KS couldn't afford them on his own. And because of his gambling problems, Mr KJ's income couldn't be relied upon. He couldn't find any evidence which said the interest rate might be reduced in the future. Our investigator said that 1st Stop should refund the broker fee of

£1,960, the loan acceptance fee of £1,295, and add 8% per annum simple to these amounts. Also, they should pay compensation of £750 to Mr KS, and remove any adverse markers from Mr KS and Mr KJ's credit files.

1st Stop disagreed. They said they'd checked Mr KJ's bank statements from 24 October 2017 – and could see his gambling had stopped. They'd been told by Mr KJ that he'd stopped – and believed him. And – the real reason the loan fell into problems was that Mr KJ left home in late 2018 – and so Mr KS couldn't make the payments on his own. The payday loans had been paid off by 1st Stop's loan – so that wasn't a relevant consideration.

1st Stop asked that an ombudsman look at the complaint.

*I reached a provisional decision where I said:*

I take a different view to our investigator.

The loan that 1st Stop agreed – depended on the joint income of Mr KS and Mr KJ. Looking at the assessment that 1st Stop did – the joint monthly net income was £3,042. Of this, Mr KJ's share was £1,342. After expenses and loan payments to all lenders, there was spare cash each month of £367. So – if Mr KJ's income wasn't available, there were going to be problems. And so - the crux of this complaint is – should 1st Stop have completed more checks about Mr KJ's gambling to make sure he could contribute to the loan repayments. Our investigator said there should've been more checks, but I don't agree with him.

When Mr KS and Mr KJ applied for the secured loan, they were open about Mr KJ's gambling. We looked at Mr KJ's bank statements for August 2017, September 2017 and October 2017 - and they show significant gambling payments. The August 2017 statement shows online gambling payments of £1,150 in the month. And the September statements shows payments of £470. And then - between 14 October 2017 and 24 October 2017 - there were gambling payments of £1,065.

But – Mr KJ told 1st Stop the gambling had stopped. 1st Stop told us that they checked Mr KJ's bank statements from 24 October 2017 up to 13 December 2017 - and these didn't show any gambling payments. I can see from their records - they did these checks and what they say is correct. 1st Stop could see evidence that Mr KJ's gambling had stopped – for almost two months. So this was consistent with what Mr KS and Mr KJ had said. We asked 1st Stop what their policy was in these circumstances, and they told us that it was to obtain bank statements for a 30-day period within 60 days of the loan agreement date. And so – they'd done that. Based on this, I'm satisfied that 1st Stop completed its usual checks, and was satisfied that Mr KJ was no longer gambling excessively. So it was reasonable to use both incomes when assessing affordability.

Our investigator said Mr KJ had a lot of payday loan commitments. And I can see that a total of £2,630 are listed in 1st Stop's assessment – but are shown as being paid off, and the payments stopped. I've seen evidence that these were repaid by 1st Stop's loan, and that 1st Stop tracked these to make sure that was the case – so that's what we would have expected to see. And so – Mr KS and Mr KJ didn't have those commitments anymore.

I can see that Mr KJ had a loan of £10,950 and credit card debts of £4,106 – these weren't paid off. These payments were included in 1st Stop's assessment, and they could see that based on the joint income of Mr KS and Mr KJ, they thought they were still affordable.

I've looked at the payments made to the secured loan after it was drawn in December 2017. Payments were made throughout 2018 – until December 2018, when the direct debit was

unpaid. It looks like there were problems in making the payments after that – the direct debit wasn't paid in January 2019. And at that time, 1st Stop agreed to reduced payments of £438.14 a month. Mr KJ had left home in November 2018 – I can see that Mr KS called 1st Stop then to say so and said that as a result he was £300 a month short each month. So – it does look like the problems with making the payments started because Mr KJ left home, not when the loan was originally agreed. The fact that happened is unfortunate, but that doesn't mean that 1st Stop shouldn't have agreed to the loan in the first place.

It is often the case that when loans are granted based on two incomes, it will be unaffordable if one person is no longer able or willing to contribute. Whilst this is unfortunate, it doesn't mean that a lender is required to test whether a loan is affordable based on one income alone. I'm satisfied that 1st Stop completed sufficient affordability checks at the time of Mr KJ and Mr KS taking the loan. The fact that their situation changed isn't the fault of 1st Stop.

I've looked for evidence that 1st Stop agreed to a reduction in the interest rate after six months. I couldn't find anything. The secured loan offer dated 15 December 2017 does state that the rate was fixed for the first five years, with a floating rate after that. So – I think it's unlikely that 1st Stop could've said that the rate would reduce. It may be that it was the broker who said this – if Mr KS and Mr KJ want to take this up, they should speak to the broker.

I can see that Mr KS has been through a difficult time and I'm sorry for the way things have turned out for him. Mr KS and Mr KJ will be disappointed by my decision. But – having looked at all the evidence, I don't think that 1st Stop were irresponsible in agreeing to the secured loan, and I won't be asking them to do anymore here.

#### Responses to the provisional decision:

1<sup>st</sup> Stop didn't have any comments, but Mr KS and Mr KJ did. Mr KJ responded and said:

- I hadn't fully considered that they'd been declined before for the loan – and that the previous six months bank statements showed the extent of his gambling.
- The calls with 1<sup>st</sup> Stop said that all they needed to do was to show one month of no gambling and the loan would be approved.
- His gambling continued after the loan was approved, showing that he hadn't stopped.
- 1<sup>st</sup> Stop didn't complete all the checks they needed to.

So – I now need to make a final decision.

#### **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've considered again what Mr KJ has said. I don't dispute that the previous bank statements showed his gambling and I was aware of that – as were 1<sup>st</sup> Stop. I had seen that they'd been declined for a loan before – but the issue before us to decide on was the decision made to approve the loan – in December 2017. The 1<sup>st</sup> Stop records show that they told Mr KJ that he needed to stop gambling for 30 days and he needed to demonstrate that. If that was said on the call as Mr KJ says – I don't consider that to be new information. And as I said in the provisional decision – that was 1<sup>st</sup> Stop's policy, so they were consistent in applying that policy in this case.

Mr KJ says he continued to gamble after the loan was agreed. I didn't look at that – but I don't think that's relevant because 1<sup>st</sup> Stop had by then completed their checks and granted

the loan. And if he did continue to gamble – as I noted in the provisional decision - that the repayments to the loan were made consistently through 2018 until late 2018 – when Mr KJ left home. This would indicate that the problems with the repayments arose because Mr KJ left home – not because of his gambling.

I think 1<sup>st</sup> Stop did complete all their checks – as I've outlined in the provisional decision.

And so, having considered Mr KS and Mr KJ's further points, I'm not going to change what I said in the provisional decision, and for the reasons I gave in it.

### **My final decision**

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K and Mr K to accept or reject my decision before 28 December 2021.

Martin Lord  
**Ombudsman**