

The complaint

Miss F complains Future Finance Loan Corporation Limited ('Future Finance') irresponsibly lent to her on multiple occasions.

What happened

Miss F was approved for two loans by Future Finance. The purpose of these loans was to support her whilst completing her further educational studies. The two loans are set out below:

Loan	Date	Capital Amount	In study repayment	Out of study repayment
One	June 2015	£2,500	£15	£35.89
Two	July 2015	£2,500	£15	£35.89

Miss F says at the time of applying for the loans, and subsequently, she was experiencing financial difficulties. She says she notified Future Finance of her inability to meet the increased out of study repayments. She says she eventually decided to borrow further monies in order to settle these loans early.

Our investigator recommended Miss F's complaint be upheld. They highlighted that Miss F was working as a pre-registration optician whilst studying. She was earning around £12,000 per year at that point. Our investigator argued that Future Finance had not made reasonable attempts to understand Miss F's outgoings at the time she applied for the loans; which included things such as rent. Our investigator felt further proportionate checks would've shown the loans were likely unaffordable to Miss F.

Our investigator also argued that Future Finance had not completed sufficient checks when Miss F had completed her studies to ensure she could meet the increased 'out of study' repayments. And had it done so it would've seen Miss F was not in a position to meet these repayments.

Future Finance disagreed with our investigator's assessment. In response to our investigator's assessment, Future Finance made the following points (amongst others) in relation to its overall business model:

- Future Finance clarified its business model and its process towards making its affordability assessment. It said its processes were designed to be compliant with the FCA rules under CONC 5.2A;
- It was a private student loan provider and not a short term or payday lender;
- Future Finance would not only look at affordability at the time of the lending decision

in isolation but also consider the future potential earnings and status of the borrower once their course was completed; *and*

- When making the affordability assessment it used the borrowers credit history, credit score, and other external data.

In relation to Miss F's specific complaint, Future Finance disagreed with the investigator's recommendation based on the below summarised points:

- The affordability assessment it completed at the time of the loan was based on her projected income and projected debt upon graduation. Based on these projections the loan was deemed affordable;
- Future Finance relies on the exemption to the collection of a customer's income and expenditure under CONC 5.2A.15(1)(a);
- Our investigator hadn't correctly considered the fact that Miss F was using her loan to cover wholly, or in part, her living expenses during the time she studied;
- Miss F had applied for loan two after she became aware she needed further lending to purchase studying equipment. Future Finance advised Miss F that she needed to wait for three months before reapplying for a new loan; or alternatively she could return the first loan and apply for a new loan for the full amount she required;
- It calculated Miss F's future income by relying on external data such as HESA website and the average salary for Miss F's chosen profession;
- Miss F was not due to make full 'out of study' repayments until three months after she had graduated;
- Our investigator had not considered other income – such as further student loans – Miss F may've received when calculating her affordability. If they would have done so it would have meant Miss F had more disposable income; thereby showing the loan was likely affordable;
- Future Finance had emailed Miss F prior to the starting of her increased 'out of study' payments to understand if the increase repayments were affordable to her. Future Finance say they received no meaningful engagement from her during this period;
- Future Finance had attempted to contact Miss F during her in study period to discuss the arrears that were occurring on her account; and had not received meaningful responses from her. It highlighted promises of payments by Miss F which had not been made;
- Miss F paid off both loans early in March 2019 and November 2019 respectively.

My provisional findings

I wrote to both parties setting out my provisional findings; and asking for them to make any further comments they wished for me to consider. I've not copied my full provisional decision here; but in summary I made the following provisional findings.

I set out the key questions which I believed were necessary for me to consider when coming to my decision on this complaint. These were:

- *Did Future Finance complete reasonable and proportionate checks to satisfy itself Miss F would be able to repay the loans in a sustainable way?*
 - *If so, did it make a fair lending decision?*
 - *If not, would those checks have shown that Miss F would've been able to do so?*
- *Did Future Finance complete a review of Miss F's circumstances once the in study period had ended?*
 - *If so, did this show Miss F had secured a job in line with the salary expectations and repayments were likely affordable/sustainable?*
 - *If not, would those checks have shown Miss F had secured a job in line with the forecasted salary and could meet the repayments in a sustainable way?*
- *Did Future Finance act unreasonably in any other way?*

I explained I had considered what Future Finance had said about its operating model. I noted that it was not a payday or short-term lender; and instead noted that it offered private student loans. I explained the main difference between Future Finance and other lenders is that it completes its creditworthiness assessments based on the projected future earnings or income of the applicant.

The relevant regulatory framework for this complaint was CONC 5.3.1.G which sets out the relevant obligations on Future Finance at the time of Miss F's application.

Future Finance needed to take reasonable steps to ensure it responsibly lent to Miss F. The relevant rules, regulations and guidance at the time Future Finance lent required it to carry out reasonable and proportionate checks. These checks needed to assess Miss F's ability to afford the loan and repay it sustainably over its term without causing her financial difficulties. Future Finance was entitled to rely on expected future income for Miss F when making this assessment. Provided that this assessment was appropriate (bearing in mind what CONC required in terms of proportionality) and there was an appropriate exercise of forbearance in relation to any initial payments.

In relation to loan one, Future Finance had completed a credit file search on Miss F; and verified her income via a payslip. The credit file search showed that Miss F had no major debts outside of her existing student loan. The payslip verified her salary as earning approximately £12,000 per year. Future Finance then went on to consider her expected future income. It says based on the information it had at the time (and using the model highlighted above) that Miss F would be earning approximately £1,400 per month. Future Finance also calculated that her expected future debt repayment for this loan and her existing student loan would be approximately £140 per month.

I agreed that Future Finance had completed proportionate checks on Miss F in relation to loan one at the point of application. In relation to her income and predicted future earnings; I explained that Future Finance had explained it relied on information from the Higher Education Statistics Agency (HESA) and information provided by the higher education institute Miss F was attending. This enabled Future Finance to predict Miss F would earn approximately £1,400 per month. This is the equivalent of a salary of approximately £17,000 per year, which when considering what Miss F and Future Finance have said about her course seemed reasonable. I explained it may be different if this amount was unrealistically high, but a salary of £17,000 was in line with most graduate starting salaries, and therefore

seemed reasonable in this instance.

When looking at Miss F's future outgoings, Future Finance calculated her future debt repayments would be approximately £140 per month. Future Finance has said it calculated this by taking into consideration Miss F's existing debt commitments and her future out of study loan repayment. It says this number cannot exceed 35% of Miss F's predicted income for the application to go through. I noted that whilst this calculation was obviously lacking in terms of all of Miss F's likely outgoings; it did cover Miss F's known existing credit commitments. And considering again the value of this loan and the level of repayments; I was satisfied it was proportionate in this instance. This was mainly because the checks which were completed did not highlight that Miss F had a high level of debt. Again, I highlighted that this may be different if the credit file showed Miss F was struggling or had a history of having struggled to maintain credit in the past.

I also had regard to the fact that this loan was to be used wholly or in part to help Miss F with her living expenses whilst she was studying. So Future Finance was entitled to rely on this when calculating Miss F's likely outgoings.

I was also satisfied Future Finance had completed proportionate checks on loan two at the point of the application. This was mainly due to the reasons set out above; because the time between the two applications was short; and Miss F's circumstances had not changed significantly in the interim.

I then went on to consider if Future Finance had made a fair decision to lend loan one and two. I was satisfied that Future Finance had done so. This was because the information that Future Finance had at the time of the application suggested that Miss F would be able to meet her existing commitments and future commitments once she had graduated. It had made a reasonable prediction on what her future income would be; and this suggested that Miss F would be able to afford the in study and out of study repayments. I was persuaded that Miss F's outgoings during her study period would be aided by the loan Future Finance had provided. Namely that it would cover her largest non-credit commitment in her rent. This meant Miss F's only other outstanding commitment that Future Finance was reasonably aware of was her existing student loan. Future Finance was entitled to rely on the information Miss F had provided as there was seemingly no contradictory information to suggest it couldn't. Miss F had shown she was likely to have a sufficient income to meet her outgoings; and as such the loan appeared affordable when initially applied for.

As the bulk of the repayments on the loans were always going to be made once Miss F completed her course, I then considered if Future Finance had completed a review of Miss F's circumstances once the in-study period had ended. I noted that Future Finance needed to be satisfied that the predicted income had reached a suitable level (in line with its original predictions) to ensure that any repayments remained sustainable to Miss F. And if Miss F's income hadn't reached that level, CONC sets out the requirement to exercise appropriate forbearance in these circumstances.

Future Finance highlighted in months prior to the out of study payments becoming due that it emailed its customers reminders. Future Finance explained these reminders let borrowers know the payments they will be making will increase. Future Finance says that this contact would prompt borrowers to contact Future Finance; if they believe they're not in a position to meet the increased payments. Future Finance argued it had sent such a reminder to Miss F on multiple occasions prior to the increase to the out of study repayments.

I noted that whilst Miss F had issues with her payments leading up to the increase in payments; Future Finance did contact her on multiple times. These correspondences let Miss F know about the state of her account and that her payments would be increasing. It

also gave her the option to contact it should she not be in a position to meet the repayments. Whilst Miss F did eventually contact Future Finance in March 2017 (more on that below); I couldn't see she engaged meaningfully around the time the payments increased to advise Future Finance that her salary hadn't increased as had been anticipated at the time the loans were taken, or that there were other reasons she could not meet the repayments.

I concluded that it was reasonable for Future Finance to expect that Miss F's income would increase to the predicted level in the near future. And it seemingly attempted to contact Miss F to verify if that was the case. I couldn't see that Miss F did contact Future Finance at that point in time (I appreciate she did later on) to let it know she would have difficulty meeting the increased costs. And, in these circumstances, I didn't think it reasonable to say Future Finance ought to have realised this for itself either. So based on what I'd seen; I was satisfied Future Finance had done enough to understand Miss F's circumstances and if she was in a position to repay the loan in a sustainable way once the out of study repayments began.

As noted above Miss F had struggled with her repayments throughout the term of the loan. As such I considered whether Future Finance had acted unfairly in any other way during its lending relationship with Miss F. I set out a summarised timeline of events which highlighted the contact between Miss F and Future Finance. I noted that Miss F fell behind in her payments early on, but cleared her arrears by January 2016.

I went on to explain that Miss F began building arrears again and by August 2016 Future Finance had begun to start the process of defaulting her. I noted there was no evidence the default was applied; and Miss F again cleared her arrears. This pattern began again until February 2017 when Miss F explained she could not afford to make repayments, and no payment was made until March 2017. There was some engagement around income and expenditure forms, but no payment was received until January 2018. This led to a CCJ being issued in February 2019. Miss F settled loan one in March 2019 and loan two was settled in November 2019.

Having considered this timeline (and the rest of the file) I was satisfied Future Finance should've done more to help Miss F. I explained Future Finance had an obligation to proactively look for signs that consumers may be struggling to meet the demands – even if a consumer may not have brought this to its attention.

I noted that Future Finance would have seen that Miss F was having difficulty with the account throughout its lifetime. In particular I noted that Future Finance began default proceedings in August 2016 (albeit Miss F paid off the balance). Whilst it may've been reasonable for Future Finance to rely on the expected increase salary for Miss F at this stage; I was satisfied this should only have lasted for a relatively short period of time (approximately two to three months). The account showed Miss F made no meaningful payment towards her loans from September 2016 until February 2017.

When Miss F did engage with Future Finance in February 2017 it was clear she was not in a position to repay the outstanding payments; and Future Finance ought've been more proactive in helping Miss F at that point, or taken the decision to begin corrective action as Miss F's sustained arrears and inability to pay suggested a longer-term issue rather than temporary difficulties making her payments.

I explained while commencing corrective action and recording a default or other adverse information, might be viewed negatively by other lenders, it does offer the borrower certain protections in relation to the debt they're having difficulty with. As Future Finance didn't do this, and I was satisfied it was clear Miss F was in financial difficulties with no likely change in circumstances, and therefore Future Finance had acted unfairly. As a result of this Miss F

had lost out financially by having to pay additional interest and charges

In order to put things right I required Future Finance to complete the below redress:

- In relation to loan one – refund the interest and charges Miss F paid from 1 March 2017 until the loan was settled in March 2019; *and*
- In relation to loan two – refund the interest and charges Miss F paid from 1 March 2017 until the loan was settled in November 2019*.

Miss F responded to the provisional decision, agreeing overall to the findings (she offered to provide further email correspondence but noted the content was what was already known). She queried how information on her credit file would be recorded following the redress which was suggested.

Future Finance responded and also agreed to the overall findings. It made some further points in relation to its communication with Miss F. It stated:

- It had begun default notices to Miss F in December 2016 and January 2017 in relation to both loans;
- It had made regular proactive efforts to engage with Miss F throughout the loans asking her to engage with it; and setting out what it could do to help;
- It issued notice of sums in arrears in October 2016 for both loans;
- It sign posted Miss F to free debt advice throughout its communications;
- It did not receive meaningful engagement from Miss F and as such Future Finance says it was 'unsighted' as to the best outcome for Miss F throughout this period, and it was trying to give her the benefit of the doubt.
- It agreed that with hindsight in light of Miss F's lack of engagement it could've been more decisive in providing corrective action.
- It did not agree any changes to Miss F's credit file were required as it maintain an accurate reflection of her relationship with her.

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.

As both parties have agreed to the outcome reached in my provisional decision I see no reason to depart from it.

I'm therefore satisfied that Future Finance completed proportionate checks at the point loan one and loan two were approved. I'm also satisfied it acted reasonably to understand if Miss F's circumstances had changed to the required level once the out of study repayments began.

However; I'm satisfied Future Finance did not act fairly throughout the term of the loan. In particular it should've been more proactive in taking corrective action sooner. This should've been at the latest by 1 March 2017. By this point it was clear Miss F was not in a position to meet the repayments sustainably. As Future Finance did not do this, Miss F had lost out by

having to pay additional interest and charges.

I note Future Finance's comments in response to the provisional decision. I agree that Miss F did not engage as meaningfully as she could've throughout (this is why I've not awarded Miss F 8% interest in relation to her redress). But as Future Finance accepts, this lack of meaningful engagement should've prompted it to take proactive steps sooner, in order to reduce the financial loss Miss F suffered.

In relation to Miss F's credit file; I've considered the information both parties have provided. I'm satisfied that Future Finance is only able to correct Miss F's credit file in relation to the entries it recorded. These entries should be a reflection of the fact that forbearance measures should've been offered sooner to her. Future Finance isn't able to amend any information that has been recorded by a third party so Miss F would need to contact this party directly should she be unhappy with its actions.

Putting things right

As Miss F has lost out financially as a result of Future Finance's actions, it needs to put things right. In order to do this, I require Future Finance Loan Corporation Limited to do the following:

- In relation to loan one – refund the interest and charges Miss F paid from 1 March 2017 until the loan was settled in March 2019*;
- In relation to loan two – refund the interest and charges Miss F paid from 1 March 2017 until the loan was settled in November 2019* *and*
- Amend Miss F's credit file to reflect the above actions. These corrections relate only to the entries Future Finance have been responsible for.

*HM Revenue & Customs requires Future Finance to take off tax from this interest. Future Finance must give Miss F a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold this complaint in part against Future Finance Loan Corporation Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 14 April 2022.

Tom Whittington
Ombudsman