

The complaint

Mr L complained that UK Credit Limited lent to him irresponsibly without doing sufficient affordability checks to assess whether he could reasonably afford the loan.

What happened

Mr L was given a single loan by UK Credit. Mr L told UK Credit that he would use the loan for debt consolidation – in other words, repay some of his other outstanding debt with the money UK Credit provided.

The main loan details were as follows:

Date	Amount	Term	Monthly repayment	Total amount payable over term	Loan status
07/08/19	£10,000	44 months	£383.43	£16,870.92	Outstanding

When Mr L complained to UK Credit it didn't uphold the complaint so Mr L 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 did accept that it didn't do all the checks it should've done before lending but said that this didn't mean that the loan was unaffordable. UK Credit told us that without sight of what further checks would have shown, it didn't believe there was enough evidence to support the investigator's conclusions that the loan was unaffordable or unsustainable. It mainly said the loan had looked affordable on the figures it gathered and that it disagreed that surplus income of £151 was insufficient given the other household income and the fact that household expenses were shared.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr L'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 L's complaint.

UK Credit gathered some information from Mr L 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 to find out about Mr L's credit history and during a phone call it asked Mr L about his normal monthly spending and how he planned to use the loan.

Mr L's monthly income was recorded as £2,200 and after reviewing the information on the credit report it obtained and speaking to Mr L, UK Credit worked out that with the planned debt consolidation, Mr L should still have a monthly surplus of around £151 *after* paying for its loan. So UK Credit concluded that the monthly repayment of £383.43 for this loan should've been affordable for him. On this basis, UK Credit concluded that it was fair to lend to him – and this remains its view.

UK Credit has now acknowledged that it didn't do a proportionate check before agreeing to lend. But, I don't need to say anything more about this as it doesn't affect the outcome of this complaint.

The main reason why I think it's fair and reasonable to uphold this complaint is because I don't think UK Credit thought carefully enough about what the information it had gathered showed about Mr L's financial situation. To my mind, the information it acquired when carrying out its own credit checks included clear warning signs that Mr L was experiencing serious financial difficulty and it was apparent his plans for using this loan for debt consolidation weren't going to improve his overall financial situation. So I don't think UK Credit made a fair lending decision on this occasion when it agreed to provide this loan to Mr L based on the information it had in front of it. I'll explain my reasons for saying this.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or even sometimes 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've seen that Mr L's outstanding balance owing on loans was £4,899, he owed £18,817 on credit cards and £836 on other credit accounts. I think this looked like quite a high amount of unsecured debt for someone in Mr L's particular financial situation and it was evident that he had a long established record of relying on credit.

UK Credit was also able to see that Mr L had taken out multiple new credit accounts – a mix of payday and longer term unsecured loans as well as a new credit card - in the months running up to him applying to UK Credit for this loan. Two of his credit cards were over the account limit. I noted when looking at the credit report UK Credit obtained that Mr L owed

£9,962 (on a card with a credit limit of £9,800) which meant this single debt alone was more or less equal to the amount of the loan UK Credit would be providing to Mr L. I think should have straightaway alerted UK Credit to the risk that Mr L's overall debt consolidation plan was unlikely to be realistically achievable with the loan it provided.

I think UK Credit should've realised that the information it had gathered showing the extent of his reliance on expensive credit was significantly at odds with what its credit checks showed and that it couldn't safely rely on what Mr L had told it about how he spent his money.

I think it's reasonable to think that if Mr L had really had any spare cash he would've made much more meaningful inroads into clearing more of this debt and been less reliant on taking new credit – and he wouldn't have needed to apply for this expensive loan.

All of this suggests to me that Mr L was over-reliant on using credit and his spending on debt had got beyond his control.

I don't think using this loan to repay existing debt was enough to give UK Credit reason to think this would've improved Mr L's overall position sufficiently to achieve a significant and sustainable improvement in his financial situation, given his outstanding indebtedness overall. And based on all the information UK Credit had gathered, I don't think it was reasonably able to say that the loan was likely to be sustainable affordable for Mr L.

Even after the planned debt consolidation, UK Credit calculated that Mr L was still committed to make monthly repayments of £790.78 towards his non-consolidated debt and on top of this he would need to pay his new UK Credit loan monthly repayment of ££383.43.

By my reckoning, this meant Mr L would need to pay more than half his net monthly income on meeting his credit commitments – and more if he was to make any realistic inroads into his credit card debt by paying more than the minimum monthly repayments. I think this was such a significant proportion of his take home pay needed to service his debt that this wasn't likely to be sustainably affordable for Mr L, especially bearing in mind the 44 months loan term.

I think this is borne out by the information UK Credit saw on the updated credit checks it carried out when Mr L complained about this loan. UK Credit has relied on the fact that Mr L used the loan as planned to repay other debt and reduced his overall outstanding credit balance by over £2,000 to support its view that the loan it provided hadn't had a detrimental effect on Mr L's financial circumstances. But I disagree. I don't think the net decrease I can see in his overall total indebtedness shows a significant or meaningful improvement overall in his financial situation given that this loan will cost him an additional £6,870.92 over the loan term. And I think the lack of sustainability is demonstrated by Mr L's continuing reliance on taking out this sort of expensive credit – within a couple of months he had signed up to a new loan which would cost £70 per month for at least the next two years and he took out and repaid other loans in the months that followed.

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 the information it had in front of it that it could safely conclude this loan would be sustainably affordable for Mr L. Despite what UK Credit understood about his debt consolidation plans, it is unclear to me why UK Credit thought Mr L would be able to sustainably afford its loan. I think the scale of his debt and the extent of his evident money

problems, compared to the much smaller value of the loan UK Credit provided, would suggest that it was reasonably foreseeable that Mr L would remain in serious financial trouble regardless. I don't currently think UK Credit should have agreed to give this loan to Mr L on the basis of what it knew about his financial situation when it provided the loan.

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

I haven't seen anything which makes me think that UK Credit acted unfairly or unreasonably towards Mr L in some other way. So I'm not planning to award any additional redress over and above what I've set out below.

But as Mr L 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."

What the parties said in response to my provisional decision

Mr L agrees with what I've said in my provisional decision.

UK Credit acknowledged safe receipt of my provisional decision and confirmed it had noted the due date for sending a response. I have heard nothing further from UK Credit and the deadline for responses has now passed so I think it's reasonable for me to proceed with my review of this complaint.

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 this complaint.

Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

Putting things right

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

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

If UK Credit has sold any outstanding debt it should buy this back if able to do so and then take the following steps.

Otherwise, UK Credit should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr L received as a result of being given the loan. The payments Mr L made should be deducted from this amount
- if this results in Mr L 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 L bearing in mind the need to treat him positively and sympathetically in those discussions.
- remove any adverse information placed on Mr L's credit file regarding the loan.

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

My final decision

I uphold this complaint and direct UK Credit Limited to take the steps I've set out above to put things right for Mr L.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 5 January 2022.

Susan Webb
Ombudsman