DRN-3226456

Complaint

Mr D has complained that Honeycomb Finance Limited ("Honeycomb") provided him with an unaffordable loan.

Background

Honeycomb provided Mr D with a loan for £7,000.00 in September 2016. The loan had an APR of 18.9% and a 36-month term. This meant that the total amount to repay of £9,020.35, which included interest of £2,020.35 was due to be repaid in 36 monthly instalments of around £250.

One of our adjudicators looked at this complaint and thought that Honeycomb shouldn't have provided this loan as it ought to have realised it was unaffordable.

Honeycomb disagreed and asked for an ombudsman to review the complaint.

My findings

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 general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Mr D's complaint.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr D's complaint. These two questions are:

1. Did Honeycomb complete reasonable and proportionate checks to satisfy itself that Mr D would be able to repay his loan without experiencing difficulty or suffering significant adverse consequences?

    o If so, did it make a fair lending decision?
    o If not, would those checks have shown that Mr D would've been able to do so?

2. Did Honeycomb act unfairly or unreasonably in some other way?

Did Honeycomb complete reasonable and proportionate checks to satisfy itself that Mr D would be able to repay his loan without experiencing difficulty or suffering significant adverse consequences?

Honeycomb provided this loan while it was authorised and regulated by the Financial Conduct Authority ("FCA"). The rules and regulations in place required Honeycomb to carry out a reasonable and proportionate assessment of Mr D's ability to make the repayments under these agreements. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so Honeycomb had to think about whether repaying the loan would cause significant adverse consequences *for Mr D*. In practice this meant that Honeycomb had to ensure that making the payments to the loans wouldn’t cause Mr D undue difficulty or adverse consequences.

In other words, it wasn’t enough for Honeycomb to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr D. Checks also had to be “proportionate” to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

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 loan repayments to a given loan amount from a lower level of income);

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

- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period); and

- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I’ve carefully thought about all of the relevant factors in this case.

Were Honeycomb’s checks reasonable and proportionate?

Honeycomb says that it carried out an income and expenditure assessment with Mr D prior to providing him with his loan. This information was validated against a credit check and a bank statement which Mr D was asked to provide.

So bearing in mind Honeycomb says and has evidenced that it obtained a significant amount of information on Mr D’s circumstances, I’m prepared to accept that it did carry out proportionate checks – at least in terms of the information requested – before providing this loan to Mr D.

Did Honeycomb make fair lending decisions?

It isn't enough for a lender to simply request information from a consumer before deciding to lend to them. So even if a lender may have requested a proportionate amount of information, it may still be the case that it will not have acted fairly and reasonably towards that consumer if it didn't carry out a fair and reasonable evaluation of the information it obtained.

I say this because a lender is required to carry out an assessment of the borrower's ability to repay any credit advanced. And any assessment requires an evaluation, judgement, appraisal and scrutiny of any information obtained. Honeycomb says its assessment of the information obtained led it to conclude that Mr D's loan was affordable for him as he'd be able to sustainably make his repayments.

Honeycomb was required to establish whether Mr D could make his loan repayments without borrowing further or experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I've carefully considered the information provided in light of this. Having done so, it's worth noting even on Honeycomb's own assessment the payments for this loan took up a significant chunk of what it concluded was Mr D's disposable income. And the expenditure side of the calculation didn't include anything for Mr D's existing credit commitments even though this loan wasn't enough to clear all of his debts.

Furthermore, the bank statement Honeycomb asked Mr D to provide showed that he was earning less than what it had worked out as Mr D's income. So while I appreciate what Honeycomb said in response to our adjudicator's assessment, I do think that it ought to have been on notice there was a discrepancy here - otherwise there was simply no point in attempting to validate Mr D's income. And when the lower income is taken into account, it's unlikely that Mr D had sufficient funds to repay what he was committing to without borrowing further or experiencing difficulty.

So, in my view, while Honeycomb believed that the monthly payments were pounds and pence affordable for Mr D, I think the information available suggested Mr D was always unlikely to be able to make the payments he was being asked to commit to without borrowing further or suffering significant adverse consequences. Indeed, the recorded purpose of this loan at the time was to repay other debts and even then the funds provided weren't enough to do this.

Bearing this in mind, and what exactly it was Honeycomb was required to consider, I'm satisfied that Honeycomb's decision to provide this loan to Mr D wasn't fair and reasonable in the circumstances.

Did Honeycomb act unfairly or unreasonably towards Mr D in some other way?

I've carefully thought about everything provided. And having done so, I've not seen anything to suggest that Honeycomb acted unfairly or unreasonably towards Mr D in some other way.

Did Mr D lose out as a result of Honeycomb unfairly providing him with his loan?

As Mr D paid interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what Honeycomb did wrong.

So I think that Honeycomb needs to put things right.

Fair compensation – what Honeycomb needs to do to put things right for Mr D

Having thought about everything, Honeycomb should put things right for Mr D by:

- refunding all interest, fees and charges Mr D paid on this loan;
- adding interest at 8% per year simple on any refunded amounts from the date they were paid by Mr D to the date of settlement†;
- removing any adverse information recorded on Mr D's credit file as a result of this loan;

† HM Revenue & Customs requires Honeycomb to take off tax from this interest. Honeycomb must give Mr D a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr D's complaint. Honeycomb Finance Limited needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 4 April 2022.

Jeshen Narayanan
Ombudsman