

The complaint

Miss S complains Future Finance Loan Corporation Limited ('Future Finance') irresponsibly approved her for multiple loans.

What happened

Miss S was approved for the following loans by Future Finance:

Loan	Date	Amount	Term	In Study Repayment	Out Of Study Repayment
One	January 2016	£16,100	129 months	£75	£207 (approx.)
Two	July 2016	£3,000	127 months	£15	£40 (approx.)

Miss S says Future Finance acted irresponsibly when approving these loans. She says Future Finance did not complete reasonable and proportionate checks before approving the loans. Miss S says Future Finance therefore failed to ensure the loans were suitable for her. Miss S says the loans were unaffordable to her; and has incurred a loss as a result.

Future Finance agreed to waive interest during holiday periods that Miss S had. These amount to a credit adjustment of approximately £720 for loan one and £26 for loan two.

Our investigator recommended this complaint be upheld. He felt that Future Finance had not completed proportionate checks prior to its lending decision for loan two. He recommended that Future Finance should refund the interest and charges which applied to loan two; and to waive the interest which had accrued when the payment holidays were approved.

Miss S responded to our investigators view accepting his recommendation in relation to loan two. Whilst she didn't respond saying whether she explicitly agreed with the outcome in relation to loan one; she made the following points:

- She thought Future Finances prediction of £30,000 for her future salary was unrealistic;
- That she did not have a 'training contract' (the necessary next step in her career journey for all people wishing to be a qualified solicitor);
- She did not finish the course in 2016, but instead sat her last exam in June 2017. This was due to a combination of retakes and personal circumstances;
- She had to leave her part time job in May/June 2016; and therefore had no additional

income to support herself;

- The payment holidays offered, whilst an act of forbearance, did not provide sufficient support for her considering her financial difficulties.

Future Finance responded to our investigator's view disagreeing with the findings he had reached. Its response can be summarised as:

- It set out details of its business and operating model. Future Finance has set this out to our service in a number of previous cases. Namely that it is entitled to rely on reasonable future predicted income; and that it is not a payday lender;
- It completed proportionate checks at the outset. In relation to loan one it calculated Miss S's future income as £30,000 and her predicted future outgoings per month were £572.44. It had considered Miss S's existing financial commitments; and noted that she was not exceeding her credit limits at that time;
- In relation to loan two; again it completed proportionate checks. It had calculated Miss S's future outgoings would be a total of £630.85 which included both loans and other reasonable expenses. Again it considered Miss S's existing debt at that point;
- In relation to loan two; this money was being used to help fund Miss S's living expenses and as such her income reduction was lessened;
- It had offered sufficient forbearance in the form of holiday repayments to Miss S. It had contacted Miss S prior to the increase in out of study repayments. It says it spoke to Miss S throughout this period and discussed her arrears with her. Future Finance did not receive responses from Miss S; and she continued to make her repayments.

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 complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Miss S's complaint.

Bearing in mind the rules, regulations, guidance and good industry practice, I think that there are three key questions for me to think about while looking at Miss S's complaint.

These are:

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

b) If not, would those checks have shown Miss S had secured a job in line with the forecasted salary and could meet the repayments in a sustainable way?

3. Did Future Finance act unreasonably in any other way?

Did Future Finance complete reasonable and proportionate checks to satisfy itself Miss S would be able to repay the loans in a sustainable way?

Before I go on to consider the checks Future Finance carried out, I've considered what Future Finance has said about its operating model and profile of its borrowers.

Future Finance has highlighted that it is not a payday or short-term lender. It has explained that it offers student loans to individuals who are funding their further education. It says its approach to lending meets the relevant regulatory guidelines. The main difference between Future Finance's lending and that typically provided by other lenders is that it completed its creditworthiness assessments based on the projected 'future' earnings or income of the applicant.

Future Finance has explained its assessment model is '*based on the result of the calculations taking into account the customer's provided information and independent data that [it] analysis*'. In terms of the independent data Future Finance has explained this '*is based on independent data published by HESA [Higher Education Statistics Agency], who provide average incomes achieved by a combination of universities and courses across the UK*'.

Future Finance needed to take reasonable steps to ensure it didn't lend irresponsibly to Miss S. 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 S's ability to sustainably repay the loan over its intended term without causing her financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as their circumstances.

And it isn't sufficient for Future Finance to just complete proportionate checks – it must also consider the information it obtained from these checks to make a fair lending decision. This includes not lending to someone who's already struggling to repay what they owe; and ensuring repayments can be made sustainably – in other words without having to borrow further or experiencing undue difficulty.

As noted above, Future Finance was entitled to rely on expected future income for Miss S 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.

Loan one

Loan one was taken out in January 2016; and was for a capital amount of £16,100. The purpose of this loan was stated as being used for Miss S' tuition fees and a contribution to her living costs during the period of study.

Future Finance has explained to our service in detail the checks it completes; along with how it calculates the predicted future income of its applicants. In this instance it searched

Miss S's credit file, verified her stated income via payslips; and used this in conjunction with its internal systems to predict Miss S's future income and outgoings.

Future Finance has explained that it calculated Miss S's future income post-graduation to be around £30,000 per year. It did this using the method outlined above. It used the information on Miss S's credit file and its own internal scoring to predict Miss S's future outgoings and calculated these to be approximately £580 per month. Future Finance says these checks combined were proportionate.

Miss S has explained to our service that she believes the figure of £30,000 was unrealistically high; and therefore the checks completed weren't proportionate.

I've considered what both parties have said in relation to the future predicted income for Miss S. And whilst I understand Miss S's argument (that it is not guaranteed Miss S would secure a training contract); I'm still persuaded that Future Finance was entitled to rely on the £30,000 figure when completing its checks.

I say this because the information Future Finance had at that point was gathered from third party sources – such as the Higher Educational Statistic Agency (HESA); and the third party course provider. This figure, £30,000, does not seem unreasonable at this point in time when considering the anticipated career path Miss S was planning on undertaking. Whilst this may not have been the salary Miss S ended up earning post-graduation; neither party would've known this; and the number in itself is not wholly unrealistic or implausible. So I'm satisfied Future Finance acted fairly when relying on this.

However, with that being said, I'm not satisfied that overall Future Finance completed proportionate checks in this instance. The key starting point here, is that the amount being advanced was substantial – over £16,000 – and over an extended term. Whilst I acknowledge the nature and the purpose of these loans; the in-study repayments were still reasonably high at £75 per month. As such I'm satisfied that proportionate checks in this instance would include Future Finance needing to get a more detailed understanding of Miss S's circumstances.

Future Finance completed a credit search and used this information to help inform its future predicted outgoings. It had also asked for Miss S to provide verification of her stated income in the form of payslips (which she duly did). Future Finance says the information on the payslip as well as her credit file didn't indicate that Miss S was struggling financially; or that any of the information she had provided to that point was likely to be inaccurate.

The credit search showed that Miss S had a number of active accounts. These were made up of various products including unsecured loans, credit cards and mail order accounts. Miss S had a combined total credit limit of approximately £4,500. Miss S was also using her overdraft facility at this time of around £1,000 with a limit of £1,500.

Whilst Future Finance has used its own internal scoring system for Miss S's outgoings figure; I'm satisfied that it had sufficient information from Miss S which suggested that it needed to do more in order to better understand her outgoings during the in study period. I say this because whilst Miss S submitted her payslip for her income; Future Finance was aware that this figure was likely to decrease whilst she was completing her studies. It also knew that Miss S had a number of existing open lines of credit across a number of different products including unsecured loans, credit cards and store cards. It was also aware that whilst Miss S had an overdraft; she was using around 60% already. Whilst Future Finance has provided our service with the results of Miss S's credit file; it has not presented us with the actual copy of it; so I'm unable to say how the repayments were being managed. I accept that part of this loan was going to help Miss S towards her living expenses, but that was a

small amount; and considering what Future Finance knew about Miss S's existing credit commitments; I think it should've done more to ensure the contribution to her living expenses was sufficient to make the in study repayments affordable.

I also note that whilst Future Finance has used its own internal calculation for outgoings; this is obviously lacking in gaining a complete understanding of Miss S's outgoings. And as there were suggestions Miss S may've had higher outgoings during the in-study period and beyond; I'm satisfied Future Finance should've completed further checks in order for them to be proportionate.

Loan two

Loan two was taken out in July 2016 and was for £3,000. The purpose of this loan was to help Miss S with her living expenses while studying.

Again Future Finance says its completed proportionate checks. It completed the same checks as those for loan one. Its calculations for her predicted future outgoings had increased to £630 to reflect the increased amount being borrowed.

By this point Miss S's income had decreased to £3,600. Future Finance says that although Miss S provided a payslip showing her reduced monthly income; she had informed it she wasn't actually working at that point in time. Her credit file debt had increased to obviously reflect the £16,000 loan from loan one. However, her other debts had also increased. Importantly Miss S was now £1,462 into her £1,500 overdraft.

Having considered the checks which Future Finance completed; I'm satisfied that again it should've completed further checks to understand Miss S's financial situation better.

I've already explained why the checks carried out before loan one was provided weren't reasonable and proportionate. Given Future Finance knew Miss S's income had reduced and her indebtedness had increased by the time of loan two, it follows that the checks carried out before this loan was provided weren't reasonable or proportionate either.

If the checks weren't proportionate, would further checks have shown that Miss S would be able to repay the loans in a sustainable way?

Loan one

I've explained above why I don't think proportionate checks were completed in relation to loan one, and why I'm satisfied Future Finance should've completed more checks to verify Miss S's outgoings. As further checks weren't completed; I have to consider what further information, would've likely shown about the affordability of the loan for Miss S.

Our service has asked for Miss S to provide further information about her financial circumstances at the time, such as completing an income and expenditure assessment, providing bank statements or copies of her outgoing bills. Despite multiple requests to Miss S for this information, she's not provided it; and as such I only have the information from Future Finance's searches; and the written and oral information Miss S has provided.

In the absence of more persuasive or substantive information from either party I'm unable to say that further checks would've likely shown this loan would've likely been unaffordable to Miss S at the point it was approved.

Whilst I don't agree Future Finance's checks were proportionate; it was entitled to rely on the information it was presented with. This information seems to suggest that whilst Miss S had

existing credit, the report Future Finance completed seems to suggest there were no negative markers; and she had a part time job from which some income was going to be available to her. Future Finance was aware Miss S had some available overdraft space; and access to other credit facilities; and as such it seems that Miss S would've been able to meet the cost of the reduced in study payment. I note that some of the £16,000 loan was going towards cost of living expenses, so it may've helped supplement any income Miss S was likely to receive from her job.

So, with this in mind; I'm unable to say its more likely than not that further checks would've shown the loan was unaffordable to Miss S. As such I'm unable to say Future Finance acted unfairly in approving this loan.

Loan two

Miss S has also been unable to provide further information in relation to her financial circumstances at the point loan two was approved. So again, I've relied on the information which has already been provided to consider what I think further checks would've likely shown.

I want to point out that whilst Future Finance's model is based on future earnings and predicted outgoings; it is still required to consider whether any short-term payments are affordable to its borrowers. That is to say, whilst it is reasonable to rely on the future expected salary for the main out of study payments; it does need to consider whether the in study repayments are affordable to its borrowers based on their circumstances at the time. In this instance, I'm satisfied that further checks on Miss S's circumstances would've shown that any further lending would've likely been unaffordable to Miss S even where the short-term reduced payments are concerned.

By the point loan two was approved Miss S's income had reduced significantly to around £3,600 per year before deductions. This amounted to having around £170 per month in income. Miss S says that at the point she applied for loan two she wasn't actually working at all due to conflicts in her school timetable. The credit file search completed at the time showed that Miss S had been using her overdraft facility further to the point she was now just £70 under the total limit.

Whilst this loan was being used to help with Miss S's living costs; I'm satisfied further checks would've shown that Miss S could not have afforded further credit and as such any further lending was likely to be unaffordable to her.

I say this because Miss S's circumstances had clearly deteriorated since she applied for loan one. Mainly because her income had decreased significantly as a result of her studies. Whilst in some instances this may be fine considering the purpose of these loans; I'm not satisfied in this instance; it was reasonable for Future Finance to advance Miss S further credit.

Miss S already had a number of existing credit commitments including the significant £75 in study repayment for loan one, her payments towards her mail order and credit cards. And importantly the searches showed that Miss S was now further into her overdraft limit suggesting that her outgoings were exceeding her available income and credit.

Considering these repayments were high, and she was already into a significant portion of her overdraft, I'm satisfied that Miss S was already significantly indebted, and therefore any additional credit would've simply been unaffordable.

As such, I think further checks would've shown Miss S could not have sustainably afforded the repayments for loan two at this point; and as such Future Finance acted unfairly in approving this loan.

Did Future Finance complete a review of Miss S's circumstances once the in study period had ended?

As I'm satisfied Future Finance should not have approved loan two at the point of application; I've only considered loan one moving forward. This is because any further findings or comments on loan two would not materially alter the impact of the outcome.

Future Finance says that it was not required to conduct further checks once Miss S had graduated and her payments had moved to the higher out of study figure. It says it does however need to continue to monitor the repayment performance during the term of the loan.

As the bulk of the repayments on this loan were always going to be made once Miss S completed her course and Future Finance could only estimate what Miss S's circumstances would be like at this time, I'm satisfied it was reasonably required to ensure that once the out of study period had begun, Miss S was able to meet the increased monthly repayments.

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 S. And if Miss S's income hadn't reached that level, CONC sets out the requirement to exercise appropriate forbearance in these circumstances.

Future Finance says it contacts its customers in the months leading up to the increase in out of study repayments. It says it asks for them to contact it to discuss whether they can afford the increased out of study repayments. It says in situations where a borrower cannot afford to meet the increased repayments then it offers at this point short term forbearance measures such as payment holidays. Future Finance say it would only conduct a full income and expenditure assessment if there was evidence of ongoing financial difficulties at the end of the holiday period.

In this case Future Finance says it sent Miss S reminders for loan one in August, September and October 2016. It says these communications would've asked her to communicate with it; and that it received no meaningful response from her at this point in time.

Miss S hasn't been able to provide us with further information from around this period of time. She has told us she was not earning the projected income at this point; and we know she was still having to complete her studies including resitting exams. We know she had borrowed further from Future Finance in the months prior to the lead up to loan one reaching the out of study period.

I've considered if Future Finance did enough to understand Miss S's circumstances in the lead up to loan one's out of study repayments beginning; and on balance I'm satisfied in this instance it did. I can see Future Finance did attempt to contact Miss S in the months prior to the increased payments; and I've not been presented with any evidence from either party which shows Miss S engaged with Future Finance at this point.

There appears to be some communication in December 2016 when Miss S was beginning to build some arrears; but I've not been presented with anything from Miss S prior to this which demonstrates she made Future Finance aware of any potential hardship she was facing. So at this point, it seems as though Future Finance did attempt meaningful engagement with Miss S; and this was not responded to. So, based on what I've seen, I'm satisfied that Future

Finance did enough at this point to understand whether Miss S could meet the increased payments for loan one.

Did Future Finance act unfairly in any other way?

Miss S's account began to show signs of distress in December 2016; and Future Finance contacted Miss S to discuss this. A payment was made by Miss S; and Future Finance says no further issue with her account was recorded until September 2017. At this point Miss S contacted Future Finance to request a payment holiday. At this point Future Finance began engaging with Miss S over her financial situation. It granted her the following payment holidays in relation to loan one:

- 11 October 2017 to December 2017;
- 11 August 2018 to September 2018; *and*
- 11 September 2019 to November 2019.

Future Finance in its response to our service says it could've done more to further understand Miss S's financial circumstances at this point. In response to this it agreed to waive all interest accrued for when the holiday periods began. It therefore adjusted Miss S's existing credit by approximately £730.

Future Finance says that outside of these payment holiday requests Miss S made her scheduled payments. It says Miss S has not highlighted financial difficulties outside of the complaint she raised with it. Miss S has said that payment holidays are not sufficient when considering the overall amount of interest the loan is accruing.

I've considered Future Finance's actions in relation to the rest of Miss S's relationship with it; and in this instance I'm satisfied that it has already done enough to address any shortcomings. I say this because it has acknowledged it could've done more at the point Miss S contacted it; which included returning the interest that accrued during these periods. I think that is appropriate; and in line with the type of redress our service would normally expect.

Outside of that; it appears as if Miss S has been making her scheduled repayments; and there do not appear to be records of her contacting Future Finance to discuss any further hardship outside of the payment holidays. Miss S has also not provided our service with any further information to demonstrate this was the case either. So in the absence of that information I'm satisfied Future Finance does not need to do anything further in respect to loan one.

Putting things right

As I'm satisfied Future Finance should not have provided Miss S loan two, she has lost out financially by having to pay additional interest and charges. In order to put things right, I require Future Finance Loans Corporation Limited to:

- To add up the total amount of money Miss S received as a result of having been given loan two. The repayments Miss S made should be deducted from this amount.
 - If this results in Miss S having paid more than she received, then any over payments 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 Future Finance should defer or limit repayments until Miss S is in a suitable position to make the repayments.

Future Finance should complete a regular review of Miss S's finances to determine whether she is in a suitable position to make sustainable repayments. This review should be completed regularly (no shorter than every six months) to establish if Miss S's income has met the necessary level for her to make any repayments sustainably. Once she is earning the appropriate income to afford sustainable repayments, Future Finance should attempt to arrange an affordable/suitable payment plan with her. If Miss S does not co-operate with any reasonable attempts Future Finance makes to establish her affordability; then it can continue to pursue the repayment of the debt.

- Remove any negative information recorded on Miss S's credit file in relation to loan two.

I note that Future Finance has already remediated some interest for loan two in relation to the interest which was accrued during the payment holiday it offered Miss S in August 2018. Future Finance is entitled to take any redress already credited in relation to loan two into account when making the above calculation.

In relation to loan one, I do not require Future Finance to take any further action outside of the steps it says it has already taken. That is to say, if it has not done so already, Future Finance needs to waive the interest which accrued in relation to loan one's payment holidays.

† If Future Finance considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss S how much it's taken off. It should also give Miss S a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

My final decision is that I uphold Miss S's complaint against Future Finance Loan Corporation limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 27 April 2022.

Tom Whittington
Ombudsman