DRN-3282697

The complaint

Miss M complains that Valour Finance Limited (trading as Savvy.co.uk) was irresponsible to lend to her.

What happened

Miss M borrowed £1,500 from Savvy on 27 May 2021. The loan was due to be repaid by 15 monthly instalments of £200.00 with the last payment due on 18 August 2022.

Miss M says she was already struggling financially when she applied for the loan. She says she'd developed a gambling addiction and this, combined with family bereavements, led to a worsening financial situation and severe mental health issues. Miss M says she doesn't think Savvy carried out enough checks as she had a poor credit score and multiple other high cost loans. She adds that she is having to borrow money each month just to cover living costs.

Savvy says it asked Miss M about income and expenditure and conducted a credit check. It says it verified her income and there was nothing of concern on her credit file, but it queried her high disposable income. Savvy says Miss M explained she was living with parents but recently had high vet bills to pay. Savvy says its affordability check showed the repayments were affordable to Miss M but offered to set up a repayment plan for the balance.

Our adjudicator recommended the complaint should be upheld. She wasn't satisfied that Savvy had carried out proportionate checks and, had it done so, she said it was likely to have found Miss M was spending significant money on gambling and was regularly borrowing from other short-term lenders. She said Savvy should remove any interest and charges on the loan and treat all the payments Miss M made towards it as payments towards the capital. She said Savvy should refund any overpayments (plus 8% interest) or set up a repayment plan for any outstanding balance. Our adjudicator added that Savvy should also remove any adverse information about the loan from Miss M's credit file.

Savvy responded to say that Miss M declared she spent nothing on gambling during the application and her credit file only showed a credit card. It says it was not obliged to ask for bank statements and having verified her income and asked about her low expenditure it had no concerns. It adds that Miss M's complaint was received within the cooling-off period and although she was told she could withdraw without paying interest she decided not to.

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 general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Savvy needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss M could repay the loan in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Savvy should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

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

I think that it is important for me to start by saying that Savvy was required to establish whether Miss M could sustainably repay her loan – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Miss M's complaint.

When Miss M applied for her loan, I can see Savvy asked her about her income and expenditure and checked her credit file. But I'm not satisfied these checks went far enough in the circumstances of the lending. I say that because:

- The loan was over a term of 15 months and Savvy needed to be satisfied that the repayments were sustainable over that period;
- Although Savvy verified Miss M's income, I can't see it checked her expenditure;
- The credit file showed only one active account, but it showed a clear history of short-term loans and I consider it would have been responsible for Savvy to have checked whether Miss M had any other outstanding short-term loans before it agreed to lend.

I acknowledge that Savvy queried Miss M's high disposable income, but, for the above reasons, I find it should have verified her answers.

Miss M hasn't provided a full credit file, but she's provided bank statements which I've used as a reasonable proxy for what proportionate checks were likely to have shown. This shows:

- Miss M spent almost £3,000 on gambling transactions in April 2021;
- She was funding the gambling by:
    - Receiving advances on her salary;
    - Taking out cash advances on her credit card;
    - Using short-term loans:
        - There are eight different short-term loan companies on Miss M's bank statements for April and May 2021;
        - At least three of these were active at the time of the Savvy lending.

So, I find it likely that proportionate checks would have shown that Miss M was already struggling to manage her money and that further lending was unsustainable for her.

My final decision

My decision is that I uphold this complaint. Valour Finance Limited (trading as Savvy.co.uk) should:

- Remove any interest and charges still outstanding on the loan and treat all the payments Miss M made towards it as payments towards the capital;
- If reworking Miss M's loan account as I've directed results in Miss M effectively having made payments above the original capital borrowed, then Savvy should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*
- If reworking Miss M's account leaves capital still to be paid, then Savvy should take a sympathetic view when seeking to agree an affordable repayment plan with Miss M;
- Remove any adverse information recorded on Miss M's credit file in relation to the loan – up to the date the complaint is settled.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 28 March 2022.
Amanda Williams
Ombudsman