DRN-3306363

## Complaint

Miss C has complained that Greenlight Credit Ltd (trading as "Varooma") provided her with an unaffordable logbook loan.

## Background

Varooma provided Miss C with a logbook loan for £900 in June 2019. This loan had an APR of 233.79%. And the total amount to repay of £2,047.50, which included interest of £1,147.50, was due to be repaid in 18 monthly instalments of just under £114.

One of our adjudicators looked at this complaint and thought that Varooma unfairly provided this loan to Miss C as it ought to have realised that is was unaffordable for her.

Varooma 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 Miss C'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 Miss C's complaint. These two questions are:

1. Did Varooma complete reasonable and proportionate checks to satisfy itself that Miss C would be able to repay her loan in a sustainable way?

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

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

*<u>Did Varooma complete reasonable and proportionate checks to satisfy itself that Miss C would be able to repay her loan in a sustainable way?</u>*

Varooma provided this loan while it was authorised and regulated by the Financial Conduct Authority ("FCA"). The rules and regulations in place at the time required Varooma to carry out a reasonable and proportionate assessment of Miss C's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Varooma had to think about whether repaying the loan would cause significant adverse consequences *for Miss C*. In practice this meant that Varooma had to ensure that making the payments to the loan wouldn't cause Miss C undue difficulty or adverse consequences.

In other words, it wasn't enough for Varooma to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss C. Checks also had to be "proportionate" to the specific circumstances of the loan application. The fact that Miss C loans were secured on her car didn't somehow negate or dilute these obligations.

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 Varooma's checks reasonable and proportionate?*

Varooma has said that it completed an income and expenditure assessment with Miss C. Before arranging these loans. It says it also carried out credit checks to work out what Miss C's existing credit commitments were as well having sight of Miss C's bank account transactions too.

So bearing in mind Varooma says and has evidenced that it obtained a significant amount of information on Miss C'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 Miss C.

*Did Varooma make a fair lending decision?*

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. Varooma says its assessment of the information obtained led it to conclude that Miss C’s loan was affordable for her as she’d be able to sustainably make her repayments.

Varooma was required to establish whether Miss C could make her 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 is clear Miss C was already overstretched. She had multiple defaults, a County Count Judgement against her, was in a debt management plan and still had other creditors including debt collection agencies who she was paying. Varooma says Miss C’s debt management plan and her payments was her owning up to her debts and seeking help.

I’m not persuaded by this argument – especially Miss C’s credit file shows extensive payday and high-cost lending and a history of debts being passed to debt collection agencies. But, in any event, it’s clear that Miss C’s ongoing difficulties was as a result of being unable to manage her debts previously.

And in these circumstances, I don’t see how it was fair and reasonable for Varooma to provide further expensive credit when Miss C was already struggling to repay what she owed. Indeed it’s no surprise at all to see that Miss C didn’t adhere to the original payment schedule for this loan either. In my view, while Varooma believed that the monthly payments were pounds and pence affordable for Miss C, I think Miss C was always unlikely to be able to make the payments she was being asked to commit to without borrowing further or suffering significant adverse consequences.

Bearing this in mind, and what exactly it was Varooma was required to consider, I’m satisfied that it is more likely than not the information Varooma says it obtained demonstrated that Miss C wasn’t in a position to take on any more debt and so Varooma’s decision to arrange this loan wasn’t fair and reasonable in the circumstances.

*Did Varooma act unfairly or unreasonably towards Miss C in some other way?*

Having considered everything provided, I’ve not seen anything here to suggest that Varooma acted unfairly or unreasonably towards Miss C in some other way.

*Did Miss C lose out as a result of Varooma unfairly providing her with this loan?*

As Miss C paid a high amount of interest and charges on loans that she shouldn't have been provided with, I'm satisfied that she lost out as a result of what Varooma did wrong.

So I think that Varooma needs to put things right.

**Fair compensation – what Varooma needs to do to put things right for Miss C**

Having thought about everything, I think it would be fair and reasonable in all the circumstances of Miss C's complaint for Varooma to put things right by:

- terminate any bill of sale it may have on Miss C's vehicle and arrange for ownership to be transferred back to her.

- refunding all interest, fees and charges Miss C paid as a result of being provided with this loan;

- adding interest at 8% per year simple on any refunded amounts from the date they were paid by Miss C to the date of settlement†;

- removing any adverse information, if any, still recorded on Miss C's credit file as a result of this loan.

† HM Revenue & Customs requires Varooma to take off tax from this interest. Varooma must give Miss C a certificate showing how much tax it has taken off if she asks for one.

**My final decision**

For the reasons I've explained, I'm upholding Miss C's complaint. Greenlight Credit Ltd needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 31 March 2022.

Jeshen Narayanan
**Ombudsman**