

## **The complaint**

Mr S has complained that Greenlight Credit Ltd trading as Varooma was irresponsible to have agreed credit for him.

## **What happened**

Varooma provided Mr S with two loans. The first was for £725 agreed in September 2018. The total amount of £1,269 including interest and charges was to be repaid in 12 instalments of £106. The second was for an amount of £2,500 agreed in January 2020 a few months after the first loan had been repaid. This second loan was to be repaid by 36 monthly instalments of £246 (all figures rounded). I understand Mr S had settled this loan by May 2020.

These were 'log book' loans, in other words they were granted on the basis that Mr S provided Varooma with a bill of sale for his car. This meant that if Mr S didn't make his loan repayments Varooma could potentially recoup its losses through the sale of the vehicle.

Mr S says that Varooma was irresponsible to lend to him because his situation was such that he couldn't sustain the repayments and Varooma should have realised this. He says that at that time his salary was consumed by gambling and drugs and he was borrowing from short term lenders and his family. Mr S says that both loans were repaid by his family to free him from the situation.

One of our investigators looked into Mr S's complaint and recommended that it be upheld in part as they found that Varooma was irresponsible to have agreed a second loan for him. Mr S didn't accept this recommendation because he felt Varooma shouldn't have agreed his first loan either. The complaint has now come to me, as an ombudsman, to review and resolve.

## **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.

Varooma will be aware of the relevant regulations so I will summarise them here. The lender needed to take reasonable steps to check that Mr S could afford to meet his repayments out of his usual means without having to borrow further, without missing any of his existing obligations and without experiencing significant adverse impacts. The overarching requirement was that Varooma needed to pay due regard to Mr S's interests and treat him fairly. CONC 2.2.2G(1) gave an example of contravening this requirement as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did Varooma complete reasonable and proportionate checks when assessing Mr S's application to satisfy itself that he would be able to make his repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did Varooma

make fair lending decisions?

Varooma provided this Service with the information it relied on when making its lending decisions. This included what Mr S had said in his application forms about his circumstances, copies of snapshots of transactions from one of his bank accounts and summary information from his credit file.

Mr S gave his net monthly income as £1,300 and his expenditure as £446 when he applied for his first loan. He said that he lived with his parents and the loan was to pay bills. Mr S's credit file report shows he had unsecured debts (amounting to less than his monthly wage) and he'd declared payments of £60 to a short term lender. The bank account snapshots provided by Varooma cover dates in July, August and September 2018 and I've assumed it saw all of the transactions in these dates.

I think Varooma was right to ask Mr S about his income and expenditure and independently verify this information. Mr S's relatively high monthly surplus seems at odds with him being prepared to take out an expensive loan for less than this amount. In addition, Mr S would need to meet his repayments for 12 months and the consequences of not doing so were potentially serious in that he might lose his car.

I've reviewed the information Varooma had about Mr S's circumstances. As mentioned, his credit file summary showed he had a relatively low amount of existing debt. I don't know if Varooma saw Mr S's complete credit record at that time. I can see from what he's provided to us that he had defaulted on some of his accounts. However, even if Varooma had this information, the defaults recorded on some of his accounts happened more than a year prior to his application for this loan and so I don't think they would have raised concern.

The snapshots of Mr S's bank account show that his wages could be as low as £1,160 and that he made regular payments amounting to several hundred pounds to individuals each month which weren't mentioned in his application. There are also frequent transfers to the account into which Varooma paid this first loan, for example amounting to over £500 in July 2018 and almost £300 in August. In addition, there are many transfers which reference his parents, amounting to over £2,000 both in and out of the account across the months of July and August for example. I can also see that Mr S incurred returned item charges in July and September.

The regulations in place at the time stated that Varooma needed to take adequate steps, insofar as it was reasonable and practicable to do so, to ensure that the information it had which was relevant to the application was complete and correct. I think Varooma would have seen from the account transactions that it didn't have the full picture of Mr S's finances and that he was spending more than he'd said in his application. However, I don't think it would have been clear to the lender that he was spending beyond his means.

I have borne in mind that this was Mr S's first loan with Varooma, that the repayments were low relative to his income and, apart from two returned items, there weren't clear indicators of financial difficulty in the information Varooma had. Taking everything into account, I have come to the conclusion that the checks Varooma carried out on this occasion were proportionate and there wasn't enough of concern in the information it gathered which should have prompted it to make further enquiries of Mr S before lending to him.

Mr S told us that his salary was consumed by his spending habits and he borrowed from short term lenders and his family. Let me say at this point that I don't doubt what Mr S has told us and I am sorry to hear that things were so difficult for him. I appreciate that this will be disappointing for Mr S to hear but, as I've explained, I don't think the extent of his difficulties would have been, or should have been, uncovered by Varooma when he applied for his first

loan. It follows that I find it wasn't irresponsible to lend to him on that occasion. I have noted that Mr S met his repayments for this loan, but as I will explain, I think his financial situation had worsened by the time he applied for a second loan.

Varooma agreed a second loan for Mr S in January 2000. It has provided copies of Mr S's application form, a summary credit file report and snapshots of his bank statements covering 5 November 2019 to 7 January 2000.

Mr S gave his net monthly income as £1,250 and his expenditure as £427. As with his first loan, Varooma could see from the information it had that Mr S's income varied and could be as low as £1,057 (his December 2019 wages). The account snapshots also show that Mr S was making token payments to two debt management companies and appeared to be reliant on money from his parents, with referenced deposits of over £1,100 in the two months prior to taking out this loan. Mr S continued to incur bank charges, for example £55 in December 2019 for unplanned overdraft fees. His summary credit file information shows a reduced credit score and increased borrowing.

I think Varooma ought to have been concerned at this point that Mr S was having problems managing his money and enquired further into his debts before agreeing to lend to him, especially as Mr S had said that the purpose of this loan was to consolidate debt. Furthermore, the loan repayments would take up potentially a quarter of Mr S's monthly income and he would need to meet these repayments for three years. Altogether, I think Varooma needed to carry out a more in-depth check for this loan than it did for Mr S's first loan.

Mr S provided a recent copy of his credit file and I can see from this that he'd incurred a county court judgement in March 2019 for £452 and had defaulted on almost £2,000 of loans throughout 2019. I think it's likely that Varooma would have learnt this through a proportionate check and, given what it already knew about Mr S's ongoing pattern of spending and borrowing, should have realised that he wasn't going to be able to meet his repayments for another loan without difficulty. I think it was irresponsible to have agreed to lend to him again and I am upholding his complaint about this loan.

### **Putting things right**

Mr S has had the use of the money he borrowed in 2000 so I think it's right that he's repaid it. However, I don't think that he should pay any interest or charges on the loan as I've found it was irresponsibly agreed. In order to put things right for Mr S, Varooma needs to:

- a) Refund to Mr S payments he made above the capital amount he borrowed in January 2000; and
- b) Add 8% simple interest per annum to these overpayments from the date they were paid to the date of refund; and
- c) Remove any adverse information about this loan from Mr S's credit file; and
- d) Revoke the Bill of Sale for Mr S's car if this is still in place and return any relevant documents to him if it hasn't already done so.

\*HM Revenue & Customs requires Varooma to deduct tax from this interest. It should give Mr S a certificate showing how much tax it has deducted, if he asks for one.

### **My final decision**

For the reasons set out above, I'm upholding Mr S's complaint in part about Greenlight Credit Ltd trading as Varooma and it should put things right as I've outlined.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 May 2022.

Michelle Boundy  
**Ombudsman**