

The complaint

Miss P complains that UK Credit Limited (“UK Credit”) lent to her in an irresponsible manner.

What happened

Miss P was given a guarantor loan by UK Credit. She borrowed £6000 in March 2020 and agreed to repay this over 60 months. When Miss P made her complaint to UK Credit, she had a balance to repay.

I issued a provisional decision on this complaint in April 2022. Both parties have received a copy of that provisional decision, but for completeness I include an extract from the decision below. I said;

“UK Credit gathered some information from Miss P before it agreed to the first loan. It asked Miss P about her income and expenditure. It verified her income using an online tool where it could gather bank statements over a period of 12 months. It carried out a credit check and used this to work out Miss P’s credit commitments. It also called Miss P a number of times to discuss her income and expenditure as well as go through the credit search results it had gathered.

Miss P was entering into a significant commitment with UK Credit. She was agreeing to make monthly repayments for a period of 5 years. So, I think it is right that UK Credit wanted to gather, and independently check, some detailed information about Miss P’s financial circumstances before it agreed to lend to her. I think that the checks it did were sufficient to achieve that aim. I think UK Credit’s checks were proportionate.

But simply performing proportionate checks isn’t always enough. A lender also needs to react appropriately to the information those checks show. Those results might sometimes lead a lender to undertake further enquiries into a consumer’s financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. This is something I think should have happened here. I will explain why.

The credit check results showed that Miss P was making extensive use of other credit. When she applied for the loan Miss P told UK Credit that she intended to use the loan to consolidate some other debt – repaying 4 credit card balances and 2 loans. I have listened to the phone call when this was discussed, and Miss P made it clear she was going to use the loan to repay these 6 lines of credit. So, I think it was reasonable for UK Credit to rely on what Miss P said here and discount those debts when it was assessing the affordability of the loan.

UK Credit has recently broken down income and expenditure based on what it saw in the bank statements it held at the time. I have also listened to the phone calls between the parties and can hear what was discussed between them about this. The figures provided and then verified during the call are very similar to the breakdown of income and expenditure provided by UK Credit. It calculated overall that Miss P would have disposable income of around £398 after this loan repayment is deducted. I think I can rely on most of what has been calculated here. With one exception.

UK Credit has recorded down that Miss P would repay £104 a month to creditors after debt consolidation along with the repayment for this loan. I have listened to the phone calls submitted to our service and can see where it has arrived at this figure. Miss P told it that she pays on average £64 a month on the credit card not included in the debt consolidation. The representative from UK Credit then discusses with Miss P a payday loan that she recently took out for £400. The representative then asks Miss P how much she would repay a month for this and Miss P tells them £20. UK Credit then goes on to ask about a revolving line of credit where Miss P owes £490. It again asks how much she would repay a month and Miss P again says £20. So, I think UK Credit has added all of this up and arrived at £104. But this isn't a realistic assessment of what Miss P was due to repay. Miss P was due to repay all of the £890 that month.

Miss P says in a phone call that she obtained her payday loan because there was a direct debit going out of her account and she needed the money to repay it. She also told UK Credit that she was going to pay the payday loan back on her next pay day. Miss P told it the same thing for the revolving line of credit, that she would repay it when she got paid.

It is clear to me on listening to all of this, in the phone recording, that Miss P had become reliant on credit to cover a shortfall in her finances. At the time she had asked UK Credit for a loan, she was due to repay £400 from a payday loan and £490 from a revolving credit facility. So, £890 was due to be repaid that month and UK Credit had not included this in its assessment. It had, instead included just £40. It had calculated without these 2 short term loan repayments that Miss P would have around £398 left as disposable income. So, it is clear to me again on seeing this, that Miss P even after the debt consolidation, would have to borrow again in order to meet the gap in her finances.

So, I think the results of UK Credit's checks clearly showed that it wouldn't be possible for Miss P to repay this new borrowing in a sustainable manner. I accept that by consolidating debts Miss P might actually reduce her monthly outgoings. But that doesn't mean she could afford the repayments. Although the credit check showed that Miss P had kept up with all her repayments in the past, it appears to me that she had only done so by borrowing frequently and repeatedly from other lenders, and this was evidenced within the statements that UK Credit would have had in front of it. That is not a sustainable way of managing her finances, and so, UK Credit shouldn't have provided this loan.

So, I don't think the loan should have been given to Miss P, and UK Credit needs to pay her some compensation."

I asked both parties to let me have any comments, or additional evidence, in response to my provisional decision.

Miss P responded to my provisional decision. She adds that she was an agency worker at the time she took the loan out. She says her bank statements would have shown that she did not receive regular income. She points to this as another reason why UK Credit shouldn't have given her the loan as she didn't have regular income to pay the loan back.

UK Credit has provided a detailed response and although I have not included every point that it has made below, I have considered everything it has said carefully. I will summarise what I believe the most relevant points that it has made. It says:

- Although it should have understood how Miss P was able to pay the 2 debts off over such a short period of time, it doesn't seem reasonable that this would then result in Miss P finding the loan unaffordable because she had to take out further lending.

- If she did do this, this would likely be a temporary measure due to her reducing her outgoings by consolidating debt with this loan.
- Miss P could repay the 2 loans off in the short term without it impacting on her overall affordability.

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.

The submission from UK Credit hasn't persuaded me that I should change my provisional decision.

UK Credit says it doesn't think that it is reasonable that I have concluded the loan was unaffordable for Miss P. It says Miss P would be able to repay any further borrowing caused by her paying off two short term loans, by the additional disposable income she would have by having this loan. This is because the purpose of having this loan was debt consolidation and she would be able to reduce the amount she had to repay each month.

I again have listened to the call between Miss P and UK Credit. I can clearly hear Miss P explain to it that she took out a payday loan in order to cover a direct debit payment and that she was going to clear this loan on her next payday. She says the same thing about a revolving credit payment too. I have already concluded in my provisional decision, that UK Credit carried out proportionate checks. But I don't think it reacted to the information that it had gathered.

Miss P had told UK Credit that she would be paying back short-term credit repayments that amounted to more than the disposable income that it had assessed she had *after* she had consolidated her debts. It is more likely than not Miss P would've needed to borrow further to meet the shortfall in her finances. UK Credit has said this would likely be a temporary measure due to her having more disposable income from the debt consolidation. But this didn't form part of its assessment of the affordability of the loan at the time it granted it. It didn't discuss with Miss P how she was intending to repay the short-term credit. Instead it accepted her initial answer that each of the loans were going to cost £20 a month, rather than the likelihood that these loans were being repaid within a matter of weeks.

But in any case, I can't see how UK Credit could've gained any assurance by hearing what Miss P said about paying off the short-term credit. I think it ought to have reacted to the information Miss P had told it and realised that this loan was not affordable or sustainable, especially as the term of the loan was for 5 years. So, it follows that I don't think UK Credit made a fair lending decision and I uphold Miss P's complaint.

As I am upholding Miss P's complaint, I need to think about what UK Credit would need to do to put her in a position she would have been in if it hadn't agreed to lend to her. Miss P would still need to pay back the money that she had use of, but I would need consider amongst other things that interest and charges be taken off.

I have considered all of the points UK Credit has made in its submission, and I do thank it for engaging with and responding to the findings of my provisional decision. But my findings and decision hasn't changed. So, it now needs to put things right.

Putting things right

I think it is fair and reasonable for Miss P to repay the principal amount that she borrowed, because she has had the benefit of that lending. But she has been indebted with interest and charges that shouldn't have been provided to her.

UK Credit should:

- Remove all interest, fees and charges on the loan and treat all the payments Miss P has made as payments towards the capital.
- If reworking Miss P's loan account results in her having effectively made payments above the original capital borrowed, then UK Credit should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled*.
- Discuss with Miss P an affordable repayment plan if there is still an outstanding balance to repay.
- Remove all negative information about the Loan on Miss P's credit file.

*HM Revenue & Customs requires UK Credit to deduct tax from this interest. UK Credit should give Miss P a certificate showing how much tax it's deducted, if she asks for one.

My final decision

My final decision is that I uphold Miss P's complaint and direct UK Credit Limited to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 24 June 2022.

Mark Richardson
Ombudsman