

The complaint

Miss L has complained that UK Credit Limited lent to her irresponsibly.

What happened

Miss L was given a guarantor loan of £5,000 in November 2018. The loan was repayable over 36 months with monthly repayments of around £252. If the loan ran to term, the total amount repayable including interest was just over £9,074.

Miss L complained that the loan wasn't affordable. One of our adjudicators looked into the complaint and didn't think that UK Credit had acted irresponsibly when it provided the loan. Miss L, through her representatives, disagreed with the adjudicator's assessment. As the complaint has not been settled, it has been passed to me to 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.

We've set out our approach to complaints about high cost credit and guarantor loans on our website - including the key relevant rules, guidance, good industry practice and law.

I've considered this approach when deciding Miss L's complaint.

UK Credit needed to take reasonable steps to ensure that it didn't lend to Miss L irresponsibly. I think there are key questions I need to consider in order to decide what's fair and reasonable in the circumstances of this particular complaint:

- Did UK Credit carry out reasonable and proportionate checks to satisfy itself that Miss L was in a position to sustainably repay the loan? If not, what would reasonable and proportionate checks have shown at the time?
- Did UK Credit make a fair lending decision?
- Did UK Credit act unfairly or unreasonably towards Miss L in some other way?

UK Credit was required to carry out a borrower focussed assessment (and a similar assessment on the guarantor). This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focussed – so UK Credit had to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Miss L. In other words, it wasn't enough for UK Credit to simply think about the likelihood of it getting its money back, it had to consider the impact of loan repayments on Miss L. The existence of a guarantee and the potential for UK Credit to pursue the guarantor instead of Miss L for the loan payments doesn't alter, lessen, or dilute this obligation.

UK Credit had to carry out reasonable and proportionate checks to satisfy itself that Miss L would be able repay the loan sustainably. There was no set list of checks that UK Credit had to do, but it could consider a number of different things such as the loan amount, the length of the loan term, the repayment amounts, and the borrower's overall financial circumstances.

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); and
- 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).

I've carefully considered all the evidence, arguments and information I've seen about this matter and what it means for Miss L.

UK Credit asked Miss L for information about her income and expenditure and it acquired a credit report. UK Credit says the checks it carried out before it agreed to lend to Miss L were reasonable and proportionate, and that the loan was affordable for her.

I've reviewed the information that UK Credit gathered at the time including the credit report and a recording of the telephone call between Miss L and the lender. The credit report indicated that Miss L had outstanding credit of just under £5,000. Miss L said she also owed an amount to a family member. There was a defaulted account from nearly a year earlier with a default balance of £50, but I think it would have been reasonable for UK Credit to have considered this adverse information to be historic.

Miss L told UK Credit that she was going to use its loan to consolidate her debt. UK Credit explained to her that if she didn't do so, then this new loan would most likely be unaffordable. Miss L told UK Credit she gave money regularly to a family member but that she was living at home and paid only a limited amount towards bills. Overall, I don't think there was anything from the information gathered by UK Credit that ought reasonably to have caused the lender any additional concerns about Miss L's financial position when she applied for the loan. Or that should have led UK Credit to reasonably conclude that her loan application should be declined.

From what I understand, UK Credit didn't request bank statements from Miss L when it assessed her loan application, but it did review bank statements provided by Miss L when it investigated her complaint. From what I've seen, even if UK Credit had carried out more thorough checks at the time, such as requesting a bank statement, I can't fairly say that it ought reasonably to have concluded that it should decline Miss L's application for the loan.

I don't think UK Credit would reasonably have thought that Miss L's bank account was showing significant signs of financial distress, such as frequently returned requests for payment or high bank charges for an unarranged or arranged overdraft. There doesn't appear to be regular or frequent borrowing from multiple short-term lenders, or high levels of gambling which might have signalled to UK Credit that Miss L was experiencing severe financial difficulties.

Miss L may have been spending more than she had estimated with UK Credit. But in the

circumstances, and given that UK Credit understood from Miss L that she planned to consolidate her existing debt, I can't fairly say that UK Credit ought reasonably to have concluded that Miss L was having such difficulties managing her finances that she would be unable to repay the loan sustainably.

I've not seen anything which makes me think that UK Credit treated Miss L unfairly in some other way. And taking everything into account, I can't fairly say that UK Credit lent to Miss L irresponsibly.

I know Miss L will be disappointed by my decision, but I'd like to reassure her that I have carefully considered all the information that has been provided about this matter. Having done so, I do not uphold Miss L's complaint about this loan.

My final decision

For the reasons given above, I do not uphold this complaint or make any award against UK Credit Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 16 July 2022.

Sharon Parr
Ombudsman