DRN-3579792

The complaint

Mr M complains Oakbrook Finance Limited trading as Likely Loans irresponsibly lent to him when he couldn't afford the loan.

What happened

In March 2022, Mr M took out a Fixed Loan Sum Agreement with Oakbrook for £2,000 payable over 36 months with a monthly repayment of £97.42. The annual percentage rate of interest was 49.69% with a total repayable amount of £3,507.12. Mr M said Oakbrook hadn't checked his true financial position and shouldn't have lent to him. He complained to them.

Oakbrook said they'd carried out proportionate and reasonable checks to determine Mr M's financial position at the time of the loan. They said they considered Mr M's housing costs, existing credit commitments, living expenses and the monthly cost of the applied for loan. Their affordability assessment showed Mr M had disposable income of £921.08, and that they deemed the loan to be affordable.

Mr M wasn't happy with Oakbrook's response and referred his complaint to us.

Our investigator said Oakbrook had carried out proportionate and reasonable checks for the applied for loan. She didn't ask Oakbrook to do anything further.

Mr M didn't agree he said he'd several credit commitments that Oakbrook hadn't considered. He asked for an ombudsman to decide.

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.

Having done so I'm not upholding this complaint. I'll explain why.

I've considered the relevant rules, guidance and good industry practice when someone complains about irresponsible and/or unaffordable lending. There are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did Oakbrook complete reasonable and proportionate checks to satisfy themselves that Mr M would be able to repay the credit in a sustainable way?
    a. if so, did Oakbrook make a fair lending decision?
    b. if not, would reasonable and proportionate checks have shown that Mr M could sustainably repay the borrowing?

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

Regulations in place at the time Oakbrook lent to Mr M required them to carry out a reasonable assessment of whether he could afford to repay the loan in a sustainable manner. This is sometimes referred to as an "affordability assessment" or "affordability check".

The affordability checks should be "borrower-focused", meaning Oakbrook need to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Mr M. In other words, it wasn't enough for Oakbrook to think only about the likelihood that they would get their money back without considering the impact of repayment on Mr M himself.

There's no set list for what reasonable and proportionate checks are. But I'd expect lenders to consider the specific circumstances of the loan application. What constitutes a proportionate affordability check will generally depend on several factors such as the specific circumstances of the borrower, their financial history, current situation and whether there are any indications of vulnerability or financial difficulty.

But there are factors which could influence how detailed a proportionate check should be for a given loan application. For example:

- the consumer'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 amount 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 consumer is required to make payments for an extended period).

So, I've considered whether Oakbrook in lending to Mr M had been thorough in the checks they made. And whether they've taken all these factors into account in deciding to lend to him.

In March 2022 Mr M applied for a £2,000 loan payable over 36 months. His application showed him as living with his parents, he was employed and had an annual salary of £40,000.

Oakbrook carried out checks before they agreed to provide Mr M with the loan. And this seems to be based on carrying out a credit check, reviewing a bank statement and carrying out an affordability assessment using a business standard percentage to calculate day to day living costs. Oakbrook has shown they used a monthly salary of £2,345.18 based on his annual income, housing costs of £344.60, day to day living costs of £602.08 and credit commitments of £330. Taking the new loan amount £97.42 and a contingency amount of £50, Oakbrook calculated that Mr M would have a disposable income of around £900. I can see they also carried out a credit check which showed he'd an unsecured loan of £9,000 repayable at £330 per month. And that Mr M was up to date with his commitments. So, Oakbrook considered the loan affordable.

I can see from the bank statement Mr M gave Oakbrook to consider prior to agreeing to the loan that he'd, for February 2022, a monthly income of £1,925.08. This was less than the monthly income used in Oakbrook's assessment, but if this figure was used Oakbrook would still have calculated Mr M had sufficient disposable income to sustain his loan repayments.

The bank statement while it does show some gambling and cryptocurrency transactions and transfers in and out of another account remains for much of the month in credit, going slightly overdrawn just prior to Mr M being paid. The credit file check Oakbrook saw I don't think would have given them any concerns about the way Mr M was managing his finances, as his accounts were all up to date.

Mr M was borrowing £2,000, a relatively small amount over a relatively short period of time. From what I've seen in this case, I think that Oakbrook carried out reasonable and proportionate checks on Mr M's financial position. I say this because they looked at a bank statement that showed his monthly salary. And they carried out a credit check, which didn't record any defaults or show that Mr M wasn't managing his finances.

I've not seen anything to show from the information seen by Oakbrook that Mr M was unable to keep up repayments, so I don't think Oakbrook would have had an indication that Mr M couldn't sustain his credit commitments.

Mr M has sent other bank statements for another account (one of which is dated after the loan agreement was made) and a full credit report. But I can't hold Oakbrook responsible for something they haven't seen or wouldn't have seen at the time of the loan. And as outlined about the checks they performed I think were proportionate for the loan applied for. So, I wouldn't have expected them to check further before agreeing to lend to Mr M.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 11 August 2022.

Anne Scarr
Ombudsman