

The complaint

Mr H complains that Creation Financial Services Limited ("Creation") provided him with credit he couldn't afford to repay.

What happened

Creation approved a credit card application for Mr H in July 2018. The credit limit was set at £1,000 and doesn't appear to have been increased.

Mr H said that Creation should never have extended the credit to him as he couldn't afford to sustainably repay it.

Creation disagreed and have explained to us that there were no missed payments or County Court judgments on Mr H's credit file when they reviewed it prior to making the decision to provide the credit.

Our investigator thought it was irresponsible for Creation to have provided credit to Mr H and as they disagreed with his opinion the complaint has been referred to me, an ombudsman, for a final decision.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable here.

I don't think Creation completed reasonable and proportionate checks before they approved the credit. They've provided very limited information to support that claim and whilst they have suggested they reviewed Mr H's credit file I have seen no further evidence of that. They have also suggested that they assessed Mr H's income as £1,400 but without knowledge of Mr H's outgoings I don't think a reasonable assessment of affordability could fairly be said to have taken place.

So, I've thought about what information Creation would have been likely to discover if they had completed reasonable and proportionate checks. Mr H's credit file showed he had credit commitments of around £15,000. There was a utility bill that he hadn't paid anything towards for over six months and to which he owed about £3,300. There were about five short term loans showing on his credit file that I think suggested he was struggling to afford his everyday expenses. The repayments on his loans alone were over £550 a month and if I'm to assume the £1,400 per month Creation considered was his income before tax his take home pay would only have been about £1,230. That left very little to go towards Mr H's living expenses. I don't think it was likely, on that basis, that Mr H would have been able to sustainably afford repayments towards this credit advance.

I therefore don't think the credit was affordable for him.

Creation have pointed out that Mr H has managed to keep up with his repayments since the credit was provided. Even if that is the case I don't think it was fair, in the circumstances that prevailed at the time of the lending decision, to create further indebtedness for Mr H.

Putting things right

As I don't think Creation should have provided the £1,000 credit, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr H has had the benefit of all the money he spent on the account so I think he should pay that back. Therefore, Creation should:

- Rework the account removing all interest, fees, charges, and insurances (which have not already been refunded).
- If the rework results in a credit balance, this should be refunded to Mr H along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Creation should also remove all adverse information recorded regarding this account from Mr H's credit file.
- Or, if after the rework there is an outstanding balance, Creation should arrange an affordable repayment plan with Mr H for the remaining amount. Once Mr H has cleared the outstanding balance, any adverse information recorded in relation to the account should be removed from his credit file.

*If HM Revenue & Customs requires a deduction of tax from any award of interest. The business must give Mr H a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold this complaint and direct Creation Financial Services Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 23 December 2022.

Phillip McMahon
Ombudsman