

The complaint

Ms C complained that UK Credit Limited irresponsibly provided her with an unaffordable loan.

What happened

UK Credit provided Ms C with a loan as follows:

Date	Loan amount	Term (months)	Monthly repayment	Loan status
September 2015	£5,000.00	48	£187.67	PAID

The loan purpose was debt consolidation – in other words, Ms C said she would use the loan to repay other debt.

Ms C said, through a representative, that UK Credit didn't properly check that the loan was affordable for her prior to lending or assess signs of her over-indebtedness. She told us that taking this loan worsened her already poor financial situation.

When Ms C complained to UK Credit it didn't uphold her complaint.

One of our investigators looked into Ms C's complaint. He felt this was a complaint we should uphold.

UK Credit disagreed with our investigator and asked for a final decision from an ombudsman. It mainly said that although it should have done more to find out why Ms C had recently missed payments on a couple of her accounts, otherwise Ms C's credit history gave no cause for concern.

This was a guarantor loan which means that someone else had signed up to pay this loan if Ms C failed to make the loan repayments. Before agreeing the loan, UK Credit said it also found out information about the guarantor's financial situation. It said that Ms C lived in her guarantor's household, so it had insight into their overall shared financial situation which allowed it to be confident it had a good understanding of what Ms C would be able to afford after taking its loan for consolidation purposes.

UK Credit didn't feel that our investigator had seen enough information to say that the loan wasn't likely to be affordable for Ms C. It was satisfied that, as long as she used the loan for the planned debt consolidation as discussed, it looked sustainably affordable over the loan term. And UK Credit felt this was borne out by the fact that Ms C made the loan repayments seemingly without difficulty until it was paid.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

“Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks were done and a loan looked affordable, a lender still needed to think about whether there was any other reason why it would be irresponsible or unfair to lend.

For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower already struggling with debt that can't be repaid in a sustainable way.

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 repayments to credit from a lower level of income)
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income)
- the *longer* the period of time a borrower will be indebted (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

I've kept all of this in mind when thinking about whether UK Credit did what it needed to before agreeing to lend to Ms C and thought carefully about the following key questions:

- Did UK Credit complete reasonable and proportionate checks when assessing Ms C's loan application to satisfy itself that she would be able to repay the loan in a sustainable way? If not, what would reasonable and proportionate checks have shown?
- Did UK Credit make a fair lending decision?

I've carefully listened to the call recording when UK Credit spoke to Ms C about her financial situation and discussed her debt consolidation plans.

UK Credit gathered some information about Ms C's income and expenses before it agreed the loan. As well as speaking to her directly, it carried out an electronic income verification

check and it also checked Ms C's credit file to see her existing monthly credit commitments and understand her credit history.

UK Credit was satisfied that its checks showed it could rely on Ms C receiving her declared net pay of around £980 per month. Ms C said her guarantor owned the house they lived in and was solely responsible for paying the mortgage. The guarantor also covered all the main household expenses such as council tax and utility bills. Ms C said that she paid a contribution "when and where" she could from time to time and UK Credit allowed for her paying around £100 towards monthly food bills and housekeeping.

After speaking to her about the planned debt consolidation and talking through the information it saw in the credit report it obtained, UK Credit made allowance for Ms C still needing to pay her remaining credit commitments after using the loan to repay other debt. It worked out that, even after paying for its loan on top of this, Ms C should still have more than £200 spare cash left over each month. On this basis, UK Credit concluded that the monthly repayments for its loan were affordable for Ms C.

I think that UK Credit's income and expenditure calculation was broadly fair and reasonable - and on these figures alone, I can see why it concluded that the loan looked potentially affordable for Ms C.

UK Credit still needed to think about the bigger picture. And amongst other things, it saw from its own credit checks that there were some recent arrears shown on Ms C's credit file.

But it isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application if the loan otherwise looked affordable- as it did here. The credit checks UK Credit obtained didn't show that Ms C was affected by bankruptcy and there was no record of any county court judgement. Her recent arrears on two accounts were concerning – but not enough in my view to have put off a responsible lender from providing this loan.

Bearing in mind that this loan was mainly intended for debt consolidation, I think UK Credit was reasonably entitled to take a view that this suggested Ms C was borrowing specifically to help her manage her finances more responsibly.

I think UK Credit took some trouble to ensure that it understood exactly what the impact of debt consolidation would be in terms of affordability.

And I've taken into account that UK Credit warned Ms C that the loan would only be affordable if she used it as planned to pay the debts she had identified and discussed with UK Credit at some length. I don't think it was unreasonable for UK Credit to accept at face value what Ms C said or that it had any reason to think that Ms C wouldn't use the loan as discussed.

I've taken into account that even after using the loan for the planned debt consolidation Ms C still faced having to pay at least a third of her pay just on servicing debt. That is a large portion of her pay and, in other circumstances, I might think it was unlikely that a borrower could sustain that level of repayment over a four year loan term.

But this isn't a particular concern I have in Ms C's circumstances. I say this because she lived effectively free of charge in her guarantor's household paying a financial contribution only as and when she could afford to.

I think it's also worth keeping in mind that Ms C received some additional income every month. This included payments based on her circumstances and was specifically intended to help her meet other costs – not repay additional debt. And UK Credit (fairly in my view) just included her pay when assessing affordability. But I think this extra money did allow UK Credit reasonably to take a view that it enabled Ms C to have some flexibility in her personal finances as it meant she wasn't solely dependent on relying on her pay. And it provided some additional reassurance to the lender that the loan should've been affordable for her.

For all these reasons, I don't think the information UK Credit saw was enough in my view to warrant refusing her loan application. But given the loan term and amount, and bearing in mind that with the monthly repayments Ms C would need to make towards this loan on top of her other credit, she would still have to pay a significant proportion of her disposable income towards servicing debt, I think UK Credit ought to have had concerns about Ms C's finances. UK Credit has agreed it should have enquired further into the arrears it saw on two of Ms C's accounts.

Like our investigator, I think UK Credit should've been alerted to the need for more in-depth checking to ensure it had a proper understanding of her finances.

But that's not a reason for me to uphold the complaint if I can't also point to information that UK Credit should've found out showing that the loan *wasn't* affordable for Ms C.

Our investigator asked Ms C if she could send us bank statements to help me better understand her overall financial situation when she took out this loan. Ms C was unable to provide those statements.

This means that as I've not been able to see what better checks would have shown UK Credit, on this occasion I haven't been able to draw any conclusions about this, other than I can't fairly and reasonably say that the loan was unaffordable for Ms C. She could've saved on credit card interest and cleared in full the two accounts showing arrears and the loan was enough for her to repay money owed to her guarantor and help out a family member with an outstanding bill.

From listening to the phone call, being able to do all this very much reflected Ms C's wishes and I think, on balance, the debt consolidation could have been helpful.

And I haven't seen enough to make me think that UK Credit acted towards Ms C in any other way that wasn't fair and reasonable.

I appreciate this is a disappointing outcome for Ms C but hope setting out the reasons as I've done will help explain how I've reached my conclusions."

What the parties said in response to my provisional decision

Through her representative, Ms C told me she accepts my provisional decision and UK Credit said it has nothing further to add so I think it's reasonable for me to proceed with my review of this complaint.

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 unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint.

I'd like to thank the parties for all the information that has been provided about this matter and Ms C for letting me know that she accepts what I've said in my provisional decision.

Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

My final decision

For these reasons, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 19 August 2022.

Susan Webb
Ombudsman