

## The complaint

Mr H complains that Five Lamps Trading Ltd ("Five Lamps") irresponsibly granted him credit that he couldn't afford to repay.

## What happened

Five Lamps provided Mr H with three fixed sum loans in 2020. They were all to be repaid over a 12 month period and the details were as follows:

Loan	Date	Amount	Monthly Repayment
1	1/6/2020	£500	£57.70
2	23/7/2020	£750	£88.61
3	10/12/2020	£954	£114.61

Mr H says they were wrong to provide credit as it wasn't affordable for him.

Five Lamps disagree. They say that they used Mr H's expenditure declarations and completed a detailed review of his credit file before lending. They were able to validate his income and noted payments to creditors were up to date with payments being maintained. They said that when their usual income validation process was unable to validate Mr H's income for the third loan, they asked for a copy of his payslip and were able to do that. They thought there was evidence that all three loans were affordable for Mr H.

Our investigator thought that Five Lamps shouldn't have provided any of the loans and she suggested Five Lamps should take some action to remedy the situation. But as Five Lamps didn't respond 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.

### **Loan 1**

I think Five Lamps carried out proportionate checks before approving the application. They validated Mr H's income and checked his credit file whilst asking for details about his expenditure.

But I think those checks should have given Five Lamps cause for concern. Mr H's credit file showed them that he had two credit card debts being recovered by debt collectors; £4,711 of defaulted debt; three defaulted accounts in the last three years; five accounts in delinquency in the last year, and that he also had other short term and high cost lending in place. I think that in itself was enough to suggest that it was not responsible to further increase Mr H's indebtedness and that this first loan should not have been provided. I don't think any further checks were necessary to demonstrate the loan wasn't affordable.

## **Loan 2**

Five Lamps carried out similar checks before approving the application and they also had some information about Mr H's repayment performance on the loan he had taken out with them the previous month. But I don't think the credit file showed there'd been any appreciable improvement in Mr H's financial situation and any information they had from his account performance with them was extremely limited. I don't think Five Lamps needed to carry out any further checks as I think the information they had already gathered was sufficient to suggest it would not be responsible to increase Mr H's indebtedness even further. The second loan should not have been provided.

## **Loan 3**

Five Lamps carried out similar checks before approving the application. They were able to consider Mr H's performance on his previous loans and they also validated his income by asking for a payslip. I think the checks were proportionate to the credit being provided. But Mr H's financial situation doesn't appear to have improved. The amount of unsecured and revolving debt hadn't changed much and neither had the defaulted debt. The credit file showed he'd applied for eight new credit accounts in the six months since his first loan was approved and I think the overall picture was of someone who was struggling with his financial commitments.

I think Five Lamps should also have questioned why Mr H needed a third loan within such a short period of time and before he'd paid off his previous credit with them.

I don't think Five Lamps needed to carry out any further checks as I think the information they had already gathered was sufficient to suggest it would not be responsible to increase Mr H's indebtedness even further. The third loan should not have been provided.

## **Putting things right**

Five Lamps shouldn't have given Mr H the loans.

If they have sold the outstanding debts they should buy them back if they are able to do so and then take the following steps. If they are not able to buy the debts back then they should liaise with the new debt owner to achieve the results outlined below.

A) Add together the total of the repayments made by Mr H towards interest, fees, and charges on all upheld loans without an outstanding balance, not including anything you have already refunded.

B) Calculate 8% simple interest\* on the individual payments made by Mr H which were considered as part of "A", calculated from the date Mr H originally made the payments, to the date the complaint is settled.

C) Remove all interest, fees, and charges from the balance on any outstanding loans, and treat any repayments made by Mr H as though they had been repayments of the principal on

all outstanding loans. If this results in Mr H having made overpayments then you 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. You should then refund the amounts calculated in “A” and “B” and move to step “E”.

D) If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr H. However, if there is still an outstanding balance then you should try to agree an affordable repayment plan with Mr H. You shouldn't pursue outstanding balances made up of principal you have already written-off.

E) Remove any adverse information recorded on Mr H's credit file in relation to these loans.

\*If HM Revenue & Customs requires you to deduct tax from this interest. You should give Mr H a certificate showing how much tax you've deducted, if he asks for one.

### **My final decision**

I uphold this complaint and direct Five Lamps Trading Ltd to put things right in the manner 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 27 September 2022.

Phillip McMahon  
**Ombudsman**