

The complaint

Miss K complains Oplo HL Ltd (then trading as 1st Stop Home Loans Limited) irresponsibly provided her with a guarantor loan.

What happened

Miss K was approved for a loan with Oplo in September 2013. The loan was for £5,000 payable over 60 monthly instalments of around £192. The total repayable value of the loan was around £11,500.

Miss K complained to Oplo in November 2020. She said it had irresponsibly approved her the loan as had it completed reasonable and proportionate checks it would have identified it was unaffordable for her.

Oplo didn't uphold the complaint so Miss K brought it to our service for consideration.

Our investigator reviewed Miss K's complaint and upheld it. He said Oplo hadn't completed proportionate checks before approving the loan; but he concluded he didn't need to review what further checks would likely have shown, as the evidence it obtained suggested Miss K wasn't a suitable candidate to lend to and as such Oplo made an unfair lending decision.

Oplo didn't agree with our investigator's assessment. It said it took into account the information it obtained as part of its checks; and although Miss K was reliant on credit it argued it had made a fair decision to lend.

Oplo asked for an ombudsman's review, so the complaint has been passed to me 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.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Miss K's complaint.

Bearing in mind the complaint before me, I think that there are a number of overarching questions I need to consider in order to fairly and reasonably determine Miss K's complaint. These are:

1. Did Oplo complete reasonable and proportionate checks on Miss K to satisfy itself she was in a position to afford to repay each loan sustainably?
 - If so, did it make a fair decision?
 - If not, would those checks have shown Miss K would have been able to do so?
2. Did Oplo act unfairly or unreasonably in some other way?

I've gone on to consider each of these questions in turn.

Did Oplo complete reasonable and proportionate checks on Miss K to satisfy itself she was in a position to afford to repay the loans sustainably?

Oplo needed to take reasonable steps to ensure it responsibly lent to Miss K. The relevant rules, regulations and guidance at the time Oplo lent required it to carry out reasonable and proportionate checks. These checks needed to assess Miss K's ability to afford the loan and repay it sustainably over its term without causing her financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrower's individual circumstances.

And it isn't sufficient for Oplo to just complete proportionate checks – it must also consider the information it obtained from these checks to make a fair lending decision. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without having to borrow further.

I've taken all of this into account when thinking about this loan.

Oplo has said it obtained details of Miss K's income and expenditure, as well as completing a credit file check before approving this loan. It has said Miss K declared the purpose of the loan as debt consolidation. In its responses to our service it has said it was aware '*Miss K had become persistently reliant upon credit*'. Oplo maintains it made a fair decision to lend.

Having considered all of the above I don't consider Oplo's checks were proportionate in the circumstances of this lending. The credit file it obtained showed recent and historic signs of financial distress. As our investigator said, Miss K had been consistently heavily reliant on short term credit for around 15 months leading up to this loan, had taken out additional borrowing and increased her total indebtedness in the more recent months, and had recent adverse information recorded on her credit file. This suggests to me someone who wasn't managing their finances well – and was showing signs of financial distress.

The purpose of this loan is detailed as debt consolidation – but Oplo was aware Miss K wasn't intending to clear all of her existing borrowing with this loan; and in any event Miss K's total outstanding debt at this point was more than double the loan being advanced, meaning she would still have other debts to service on top of this loan.

I think Oplo needed to complete further checks to fully understand Miss K's financial situation – by verifying her income and expenditure. Because it didn't do this, I'm satisfied it didn't complete reasonable and proportionate checks.

Would further checks have shown Miss K would have been able to sustainably afford the loan? And did it make a fair decision to lend?

As I've found above, I don't think Oplo's checks went far enough in order for it to get a thorough understanding of Miss K's financial situation. It could have verified Miss K's income and expenditure by obtaining evidence like payslips and bank statements, for example.

Miss K hasn't provided us with any evidence to show her financial situation at the point of this loan. But in the individual circumstances of Miss K's complaint, I don't consider I need further evidence. I say this because the information Oplo obtained as part of its checks ought reasonably to have led to it identifying Miss K wasn't a suitable candidate to lend to; and in doing so it made an unfair lending decision when providing this loan.

The credit check Oplo completed shows Miss K's total indebtedness as around £11,500 – with around £8,850 of this made up from loans and instalment credit rather than revolving credit. She'd opened 12 credit accounts within the six months leading up to this loan and had two current accounts over their agreed overdraft facilities. One current account had been at or over its agreed limit in each of the most recent six months. And another of Miss K's current accounts had been at or over its agreed limit in each of the most recent eight months.

Miss K also had two credit cards and a mail order account, all of which had been at their limits in each of the reporting eight months.

Miss K had four active short term or instalment loans (all being proposed to be repaid by this loan) and had settled around nine other short term or instalment loans within the previous six months leading up to this loan. Looking further back Miss K had taken around 25 short term or instalment loans between roughly six and 15 months leading up to this loan.

Miss K had taken advances against her income in April, May, June, July and August 2013 in the build up to this loan being provided in September 2013. And in August 2013 she'd taken another unsecured loan over a repayment term of 13 months with a total repayable value of just over £1,000.

So, not only had Miss K increased her total indebtedness within the six months leading up to this loan; she was showing signs that she couldn't afford to sustainably repay her existing borrowing without taking further credit. While the purpose of the loan with Oplo is detailed as debt consolidation, it wasn't enough to clear Miss K's existing borrowing in full. And Oplo was already aware that Miss K only planned to use around £3,500 consolidating her existing debt. Meaning it was adding around a further £1,500 to her total indebtedness.

Taking all the above into account, I think it was clear that Miss K was not managing her money well. She was in a cycle of debt, borrowing each month to maintain her existing essential expenditure as well as her existing credit commitments. Although this loan was largely to consolidate Miss K's existing debts; Oplo was aware Miss K would be left with a significant level of debt to service, as well as this new lending increasing her total indebtedness. And it has acknowledged it was aware Miss K had become persistently reliant on credit.

I consider Oplo ought to have identified from the evidence it obtained as part of its checks that Miss K was already in a position where further borrowing was likely to be unsustainable; and she therefore wasn't a suitable candidate to lend to. So, I'm satisfied Oplo didn't make a fair lending decision when providing Miss K this loan.

Did Oplo act unfairly or unreasonably in some other way?

I've not seen any information which suggests Oplo acted unfairly or unreasonably in any other way in relation to Miss K's complaint.

Putting things right

As Miss K has already repaid the loan, in order to settle this complaint Oplo HL Ltd should do the following:

- Refund all interest and charges Miss K paid on this loan
- Pay Miss K 8% simple interest on the refund of interest and charges from the date they were paid to the date of settlement.†

- Remove any negative information recorded on Miss K's credit file regarding the loan

† HM Revenue & Customs requires Oplo HL Ltd to take off tax from this interest. Oplo HL Ltd must give Miss K a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out above, I'm upholding Miss K's complaint and direct Oplo HL Ltd to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 17 November 2022.

Richard Turner
Ombudsman