

The complaint

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

What happened

Five Lamps approved a loan of £500 for Mr H in June 2020. The loan was to be repaid at £101.25 per month over a six month period.

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

Five Lamps disagree. They say that when they approved the loan they used a combination of credit reference agency and self-reported information to assess the application. They say that they checked a pay slip to confirm Mr H was earning about £2,594 per month and they also reviewed Mr H's credit file which didn't show any adverse information. They thought the credit was therefore affordable for him.

Our investigator didn't agree and as Five Lamps didn't respond to his view 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 in the circumstances of this complaint.

I think Five Lamps completed reasonable and proportionate checks before approving the loan, but I think the information it collected should have told them the loan wasn't affordable.

The credit file showed them that Mr H had taken out a considerable amount of recent credit. In the six months prior to his application for this loan he'd entered into agreements for six other loans that he was still paying towards and which had a total balance of a little under £12,000. He'd also opened a mail order account where he'd quickly accrued a balance of £900. There was also evidence Mr H had recently been over limit on his credit card. I think that information suggested an over reliance on credit and even without other checks I think that was sufficient information to suggest it would not be responsible to create further indebtedness with an additional loan.

So, I think this loan wasn't sustainably affordable for Mr H.

Putting things right

As I don't think Five Lamps should have approved the loan I don't think it's fair for it to charge any interest or charges. However, Mr H has had the benefit of the capital he lent so I think he should pay that back. Therefore, Five Lamps Trading Ltd should:

- Deduct the repayments Mr H made from the amount he was lent.
- If this results in Mr H having paid more than he received, any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then Five Lamps should attempt to arrange an affordable repayment plan with Mr H.
- Remove any negative information they may have recorded on Mr H's credit file relating to the loan.

*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

My final decision

I uphold this complaint and direct Five Lamps Trading Ltd 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 29 September 2022.

Phillip McMahon
Ombudsman