DRN-3669257

The complaint

Mrs L complains through her representative that OAKBROOK FINANCE LIMITED trading as Likely Loans irresponsibly lent her money on high cost loans that she was unable to afford to repay.

What happened

Likely Loans provided Mrs L with the following loans:

	Date of loan	Amount*	Term	Monthly repayment	Date repaid
Loan 1	22/03/2018	£1,500	15 months	£134.83	21/12/2018
Loan 2	20/12/2018	£1,206	12 months	£128.45	17/07/2019
Loan 3	17/07/2019	£1,196	18 months	£94.37	20/01/2020
Loan 4	20/1/2020	£1,392	24 months	£91.21	Still active

*amounts rounded up or down

Mrs L's representative said that Likely Loans failed to carry out proportionate checks at the time of the application for each loan. She couldn't keep up with all her debt repayments and entered into an IVA (individual voluntary arrangement) in October 2020.

Likely Loans said it carried out appropriate verification of Mrs L's income and a credit check for each loan. It used ONS (Office for National Statistics) data to assess her living expenses. It assessed that each loan was affordable. It hasn't produced the original credit report for each loan but has shown us the overall data from each report.

On referral to the Financial Ombudsman our adjudicator said that for loan 1, Likely Loans hadn't made a fair lending decision. She said that it had made fair lending decisions in respect of loans 2,3 and 4.

Mrs L's representative said she didn't agree and wanted an ombudsman's decision, but didn't elaborate any further. The matter has been passed to me for further consideration.

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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Likely Loans complete reasonable and proportionate checks to satisfy itself that Mrs L would be able to repay the loans in a sustainable way?

- If not, would those checks have shown that Mrs L would have been able to do so?

The rules and regulations in place required Likely Loans to carry out a reasonable and proportionate assessment of Mrs L's ability to make the repayments under the agreements. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so Likely Loans had to think about whether repaying the loans would be sustainable. In practice this meant that Likely Loans had to ensure that making the repayments on the loans wouldn't cause Mrs L undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for Likely Loans to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Mrs L. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications. I think that such a check ought generally to have been *more* thorough:

- The *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income).

- The *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income).

- The *greater* the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

Mrs L applied for repeated loans, each subsequent one to repay the previous one. So Likely Loans needed to do a thorough assessment of Mrs L's circumstances in each case. I have used Likely Loans' figures which were relayed to her representative.

loan 1

This loan was for home improvements. Mrs L's monthly income was verified at £888. Her credit commitments before the loan were assessed at £172 a month. With the monthly instalment of £134 she would have been paying around 34-35% of her monthly income on those commitments. I think this was a high percentage and an indication that the loan was unaffordable.

Taking inti consideration that Mrs L's monthly disposable income was assessed at £116, I think this was low, and taking into account the high credit to income ratio I am of the view that this loan was unaffordable. I don't think that Likely Loans made a fair lending decision in respect of this loan.

Whilst I note that Likely Loans objected to our adjudicator's calculations, I should point out that I have used Likely Loans' own figures in my calculations.

loan 2

Mrs L's monthly income was now assessed at £1,948. She had credit commitments now of £361 plus the new loan instalment of £128 (the old loan being paid off). This put her commitments at around 25% of her income, and a more manageable disposable income of £834. I think Likely Loans made a fair lending decision in respect of this loan.

loan 3

Mrs L's monthly income was assessed a at £2,527. Her credit commitments were now assessed at £248 with the new loan instalment being £95. So her credit to income ratio would have been 13-14%. And her monthly disposable income assessed at £1,483. So I think Likely Loans made a fair lending decision in respect of this loan.

loan 4

Mrs L's monthly income was assessed at £2,455. Her credit commitments were £227 plus the new loan instalment of £92 (again the old loan being paid off). This would have equated to a 13% income to credit ratio. And with a disposable income assessed at around £1,110, this should have been easily affordable. I think Likely Loans made a fair lending decision in respect of this loan.

Despite my assessment this does rather beg the question as to why Mrs L had to enter into an IVA. Whilst Likely Loans has said its checks showed she had had past defaults, I haven't seen that its figures have been disputed by Mrs L or her representative and they haven't sent in any further evidence.

Putting things right

Mrs L has had the capital sum in respect of loan 1 and it's fair for this sum to be repaid. I should warn Mrs L and her representatives that the administrator of her IVA has confirmed that, under the terms of the IVA, they do have an interest in the complaint. And it's likely that they will require that any redress be paid to that company rather than directly to Mrs L. She should contact her representative about the arrangements for this.

So far as the loan 1 is concerned, I think Likely Loans should refund all interest and charges as follows:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Mrs L as payments towards the capital amount.
- If Mrs L has paid more than the capital, refund any overpayments to her with 8% simple interest* from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, Likely Loans should come to a reasonable repayment plan with Mrs L
- Remove any adverse information about loan 1 from Mrs L's credit file.

*HM Revenue & Customs requires Likely Loans to deduct tax from this interest. It should give Mrs L a certificate showing how much tax it's deducted if she asks for one.

My final decision

I uphold the complaint in part and require OAKBROOK FINANCE LIMITED trading as Likely Loans to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 10 November 2022.

Ray Lawley
Ombudsman