

The complaint

Miss F has complained about UK Credit Limited with the help of a claims management company.

Miss F complains UK Credit lent to her irresponsibly.

What happened

In September 2015 Miss F applied for, and was given a guarantor loan for £6,000, which was repayable over a period of 60 months. The repayments were around £218 a month, and in total – once interest was added – Miss F agreed to pay back just over £13,063 over the five years. The loan was fully repaid in May 2020, four months early.

Miss F says UK Credit shouldn't have given her the loan because it wasn't affordable. She says as a result of being given the loan she ended up entering into a debt relief order (DRO).

UK Credit says it did check whether the loan was affordable, and Miss F did have enough disposable income to make the loan repayments. It says it also checked Miss F's credit file before agreeing to lend the money to her and this showed four defaults and one County Court Judgement (CCJ). It says Miss F confirmed two of the defaulted debts and the CCJ debt would be consolidated within the UK Credit loan, together with an existing loan. It says Miss F said she would use the new loan funds to repair her current car, and then look to use it to part exchange for a new car.

Our investigator thought Miss F's complaint should be upheld. UK Credit didn't agree so this complaint has been passed to me to make a decision.

After reviewing all the information provided in this complaint, my provisional decision was not to uphold 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.

In my provisional decision I explained that:

"We've set out our approach to complaints about unaffordable and irresponsible lending on our website. And I've taken this into account in deciding Miss F's complaint. Having done so, I've provisionally decided not to uphold this complaint. I'll explain why.

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 such checks had been done. If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's 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 who is already struggling with debt that can't be repaid in a sustainable way.

I've kept all these things in mind, and I've thought carefully about the information UK Credit relied on when it decided to lend to Miss F.

Miss F applied for her loan online and then UK Credit gathered some information from Miss F before it agreed to lend. It called Miss F to discuss her income and expenditure. During the course of Miss F's loan application, she declared that she was in permanent employment and earning £1,100 a month with the possibility to earn more by working extra shifts. She also declared that she was living with her parents and had monthly expenditure of around £580 – which was broken down between the costs of running a car, her mobile phone, clothing, leisure activities and what she paid towards her existing debts.

UK Credit carried out a credit check and used this to assess her credit commitments. It also asked Miss F for a payslip to validate her monthly income. Those checks suggested that at £520, Miss F had enough disposable income each month to afford the £217 loan repayments. But I think UK Credit still needed to do more checks following the information it got from the call.

Miss F told UK Credit that she intended to use the £6,000 loan to repay bills, repair her current car and put the rest towards a new car. She later explains that the bills included a CCJ debt for council tax arrears, other defaulted credit accounts and a payday loan. She also told UK Credit that the CCJ which was showing on its credit file search as being three-years old with a balance of £339 had increased to £435 after bailiffs were appointed.

I think this information alone ought to have prompted UK Credit to do more and validate not only Miss F's income but her expenditure too. The appointment of bailiffs by the court strongly suggests that Miss F hadn't been repaying the debt despite its value – even after the additional fees – being less than the indicative disposable income UK Credit had arrived at using her declared expenditure. Whilst the appointment of bailiffs may have prompted Miss F to look to refinance the debt, the fact she could not simply repay it from her disposable income does, in my opinion, cast significant doubt about the reliability of the information she had given UK Credit. I also note that during her application call, Miss F had said she could work extra shifts if needed, but this too hadn't allowed her to repay this modest debt nor prevent the appointment of bailiffs.

As I'm not satisfied UK Credit's checks were reasonable and proportionate, I've gone on to consider what reasonable and proportionate checks would have shown. This has not been an easy task because of the incongruity of the information Miss F gave to UK Credit when she applied for the loan and the information Miss F has given us in support of her complaint.

Miss F gave UK Credit copies of her contract of employment, her July 2015 savings account statement and her September 2015 payslip. The employment contract dated from 2012 confirmed Miss F was employed on a permanent basis with a basic annual salary of £13,903. The payslip (from the same employer named on the employment contract) showed her take home pay for September at £1,078 and her savings account statement showed her

salary credit for May and June 2015, both at £1,070. It also shows Miss F withdrew the full amount of her salary in cash as soon as it was credited.

UK Credit could have carried out more detailed checks in several ways – from asking for more bank statements to copies of bills and/or bailiff's demand letters for example. I accept that something I can now see from information Miss F has provided wouldn't necessarily have been revealed by whatever reasonable and proportionate checks UK Credit might have decided to carry out. But I think whatever UK Credit asked from Miss F would have given it a better understanding of Miss F's circumstances at the time to help decide whether further questions may then needed to have been asked or whether to agree the lending for her.

Miss F provided the investigator with her bank current account statements. These were for a different account to the statement she gave UK Credit when she applied for the loan. They covered the time from January 2015 right up until September 2020.

Miss F's January, May and September 2015 bank statements show her receiving student loan payments in addition to her employment income. Our investigator asked Miss F to confirm her employment status when she couldn't see a corresponding credit into her bank account for the September 2015 payslip. Miss F replied to say she had started as a full-time student in September 2015, and she was employed on a zero-hour contract but did not work any shifts that month. However, Miss F's recollections appear at odds with what the January, May and September 2015 statements show given she was already in receipt of student loan credits before she says she started as a student in September 2015 and despite saying she did not work any shifts in September 2015, there is a payslip to suggest otherwise.

In the absence of any other contemporaneous evidence of Miss F's financial circumstances from UK Credit, and as we're now a number of years on from when she was lent to, it's not only reasonable but necessary to rely on her bank statements.

I think a three-month period would have given UK Credit sufficient insight had it requested bank statements for this time. So, it is fair and reasonable that I only rely now on the statements covering June, July and August 2015. And, I can't place weight on Miss F's potential student status.

Having looked at the statements for the period in question, they reveal some material differences compared to the information Miss F gave UK Credit – for example there is a £450 standing order payable to a lettings company each month but Miss F told UK Credit she lived with parents and didn't pay rent. There are payments in June (£92) and August (£159), which the narrative most likely suggests were towards a logbook loan lender – and which do not show on UK Credit's credit search. This is in addition to the £61 she declared that she paid each month to an existing guarantor loan. Miss F told UK Credit she paid £45 each month for her mobile phone but her statements show she paid £107 in June and August – a significant difference. They also show she was paying £60 and £40 each month to two different debt collection companies – these were discussed during the call and Miss F said she intended to repay these debts with the new loan.

Overall, when I look at the statements in question, they show Miss F's average nondiscretionary spend at £875 per month, which, after the proposed new loan repayment of £217, would leave her with little to no free income. But Miss F told UK Credit she was intending to use the new loan to repay some of her existing debts and free-up £160 each month. The statements also show she received extra employment income, separate to the salary credit into her savings account, and that this averaged at £320 each month. These would leave Miss F with around £480 after the proposed new loan repayment each month, which is more than the figure UK Credit arrived at during its telephone assessment.

The investigator pointed out that Miss F had two missed payments on her existing guarantor loan, which she had taken out six months earlier – and the investigator placed substantial weight on this in reaching her recommendation to uphold the complaint.

These missed payments fell in June and August 2015 and I can see the returned direct debit payments on Miss F's bank statements. I can also see that Miss F made two payments to the lender in question in July 2015. I think from the information on her statements, Miss F had sufficient funds to cover the repayments but not all of the funds had cleared in time to meet the direct debit payments – which is different to not having sufficient funds to meet the repayment. And UK Credit could see from its credit file search that the payments were up to date in July 2015, when two payments were made that month. So, I disagree with the investigator's assessment and I don't think this is strong enough a reason to say UK Credit should not have lent to Miss F.

For reasons I've already explained, while I think UK Credit could have done more – at the time of the application – to satisfy itself Miss F was able to sustainably repay this loan, reviewing all the information we have about Miss F's circumstances from that time shows if proportionate checks had been carried out by UK Credit, it would still have been reasonable to lend to Miss F at that time."

I asked the parties to the complaint to let me have any further representations that they wished me to consider by 31 August 2022. UK Credit has acknowledged receiving the decision and said it agrees with the provisional findings. Miss F's claims management company has also replied confirming receipt of my provisional findings, disagreeing with them but didn't explain why or what it disagreed with and didn't make any further comment.

I've reviewed all the available evidence and arguments again to decide what's fair and reasonable in the circumstances of this complaint. Neither Miss F nor UK Credit have given further comments in reply to my provisional findings. So, I've not seen enough for me to alter my provisional conclusions.

In summary, I am satisfied that reasonable and proportionate checks wouldn't have prevented UK Credit from lending. I'm not persuaded that more detailed checks would have given UK Credit a reason to think that the lending was likely to have been unsustainable and/or unaffordable for Miss F.

My final decision

For the reasons I've explained, I do not uphold Miss F's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 28 September 2022.

Stefan Riedel
Ombudsman