

## **The complaint**

Miss I complains Creation Consumer Finance Limited (Creation) irresponsibly agreed a personal loan for her.

## **What happened**

Miss I says Creation agreed a loan in May 2016 for a sum of £7,500 repayable over five years. Miss I says at the time the loan was approved by Creation, she was already in financial difficulties and was borrowing from family and friends and taking out pay day loans to manage her finances. Miss I says her monthly commitments for such debts, not taking into account the new Creation loan commitment, took up 40% of her take home pay.

Miss I feels Creation acted irresponsibly providing this loan to her, and it was clear the monthly payments weren't sustainable, which Creation would have known, if it had carried out proportionate checks before agreeing to it. Miss I wants Creation to refund all interest and charges and to treat any repayments made to the loan as overpayments and refund these if applicable. Miss I wants Creation to also remove any adverse entries on her credit file relating to this loan and pay her compensation for the stress this matter has caused her.

Creation says when the loan was agreed in May 2016, it carried out reasonable checks and there was no indication from those checks the loan it had agreed was unaffordable. Additionally, Creation says there were no previous county court judgments, late payments or defaults on Miss I's background.

Miss I wasn't happy with Creation's response and referred the matter to this service.

The investigator looked at all the available information and upheld the complaint. The investigator felt Creation didn't carry out proportionate checks and didn't verify Miss I's living costs - if it had it would have shown the loan payments weren't affordable or sustainable. The investigator felt Miss I's monthly credit commitments represented a large proportion of her disposable income and she wouldn't have been able to meet the repayments over a 60-month period, without borrowing again. The investigator asked Creation to :

- Buy back the loan if it's able to do so.
- Calculate the repayments made by Miss I towards interest, fees and charges on the loan account and calculate 8% simple interest on this sum until the complaint is settled.
- Remove all interest fees and charges from the balance of the loan and treat any repayments as though they had been repayments of the principal. If that resulted in an overpayment, this should be refunded along with 8% simple interest.
- If there is still an outstanding balance, an affordable repayment plan should be agreed.
- Remove any adverse credit information from Miss I's credit file once the loan has been fully repaid.

Creation didn't agree with the investigator's view and asked for the matter to be referred to

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.

Having done so, I will also be upholding this complaint and I will explain how I have come to my decision.

Miss I has explained she was experiencing financial difficulties prior to the loan being agreed by Creation and I can understand that must have been a stressful time for her. When looking at this complaint I will consider if Creation acted irresponsibly when it approved a loan for Miss I back in May 2016.

Creation have said it carried out appropriate credit worthiness and affordability checks on Miss I before it approved the loan. The first thing to say here is when looking at whether a loan is affordable or not, there are no set rules as to what checks a lender must undertake, other than they are reasonable and proportionate relative to the amount and term of the loan requested.

It's also worth saying in these circumstances I would expect lenders like Creation to also consider a consumer's existing financial commitments before providing further borrowing. Here from the information I have seen Miss I's existing borrowing commitments, before the loan Creation approved of £7,500, totalled around £355 per month on a debt totalling around £19,000.

It's worth adding, of that existing debt a large proportion of it was committed with four years remaining. The addition of the new loan Creation agreed, meant that Miss I would now be committing to a further £7,500 of debt over a further five years, making a total indebtedness of over £26,000 and her monthly finance commitments increasing to approximately £540 per month, which represented around 45 % of her net salary each month.

So, while I understand that Creation feel Miss I's application met its normal modelling for such borrowing, here given the length of exposure of the new and existing borrowing, I feel it could have done more to check the new borrowing was sustainable. When looking at whether or not a lender has taken reasonable steps before approving any borrowing I would expect it to show that the borrower was able to sustainably repay credit without undue difficulty, while being able to meet other commitments and without having to borrow further.

With that in mind, it's fair to say given Miss I's total amount of borrowing, debt to income and debt term, this justified further investigation -such as sight of bank statements or a full income and expenditure profile. Without it I'm not sure how Creation could have been fully satisfied Miss I could sustainably afford the repayments going forward. In fact, from the information I have seen, from Miss I's own income and expenditure profile at that time and her bank statements, it suggests she was financially fully committed.

With that in mind although Creation may not agree and will be disappointed with my decision, I am satisfied it didn't take sufficient steps to understand if the loan was affordable and it now needs to take steps to put things right. While supporting the investigator's view on the redress, I have tried to simplify what is required of Creation in my comments below.

### **Putting things right**

I instruct Creation Consumer Finance Limited to :

- Take back the loan account from the debt collection agents if it is able to do so.
- Remove all interest and charges, charged to the loan account and calculate 8% simple interest on that sum and refund this to the loan account.
- If that refund results in any overpayments to the loan account, this amount should be refunded to Miss I along with 8% simple interest on that sum.
- If there is an outstanding balance remaining on the loan account after any refunds, Creation should agree an affordable repayment plan with Miss I.
- Once the loan account has been fully repaid any adverse entries on Miss I's credit file relating to that loan account should be removed.

### **My final decision**

My final decision is that I uphold this complaint.

I instruct Creation Consumer Finance Limited to :

- Take back the loan account from the debt collection agents if it is able to do so.
- Remove all interest and charges, charged to the loan account and calculate 8% simple interest on that sum and refund this to the loan account.
- If that refund results in any overpayments to the loan account, this amount should be refunded to Miss I along with 8% simple interest on that sum.
- If there is an outstanding balance remaining on the loan account after any refunds, Creation should agree an affordable repayment plan with Miss I.
- Once the loan account has been fully repaid any adverse entries on Miss I's credit file relating to that loan account should be removed.

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

Barry White  
**Ombudsman**