DRN-3800965

The complaint

Miss M complains that Inclusive Finance Limited trading as Creditspring lent to her irresponsibly.

What happened

Miss M had been provided with a loan by CreditSpring in November 2019. The loan was repaid early, and Miss M doesn't have a complaint about that. CreditSpring then agreed to provide her with two loans of £500 each on 18 September 2021.The first loan was paid straight away. This loan had to be paid over six monthly instalments of £83, plus a monthly £10 charge but no further interest. The second loan wouldn't be released until the first one had been repaid, and no payments missed. As it transpired Miss M only received the first loan. She paid the first payment but missed the second one and then only paid a part payment. In January 2022 she cancelled the direct debit and the balance still remains outstanding.

Miss M complained to CreditSpring about irresponsible lending. In response it said it carried out an extensive check on Miss M's income, outgoings, and credit repayments. This included carrying out a full credit check. It said that as she was effectively being given two loans it would have carried out the same checks for the second loan. It assessed the loan as being affordable. It has advised that the current outstanding balance is £369.82, and if Miss M could make a one-off payment it will accept a partial payment with a 50% reduction of £184.00 and mark the account on her credit report as partially settled. Miss M didn't accept the offer.

On referral to the Financial Ombudsman Service, our investigator said he thought from the evidence provided that Creditspring's decision to lend to Miss M in September 2021 was fair, given what the information about her that it obtained showed.

Miss M disagreed, pointing out that CreditSpring hadn't looked at her bank statements. She had a number of outstanding loans and the statements would have shown that she had missed some direct debit payments, and that she had spent substantial sums on gambling.

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 CreditSpring complete reasonable and proportionate checks to satisfy itself that Miss M would be able to repay the loan in a sustainable way?

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

The rules and regulations in place required CreditSpring to carry out a reasonable and proportionate assessment of Miss M's ability to make the repayments under the agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so CreditSpring had to think about whether repaying the loan would be sustainable. In practice this meant that CreditSpring had to ensure that making the repayments on the loan wouldn't cause Miss M 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 CreditSpring to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Miss M. 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).

CreditSpring had the information from Miss M's previous loan which had been dealt with by her satisfactorily. For this loan CreditSpring carried out an extensive check of Miss M's credit record. This showed that she had outstanding active balances on unsecured lending of £8,233. She had six unsecured loan accounts. She also had a default registered 13 months prior to this lending. Her loan repayments (according to the report) were £425 monthly.

Miss M's monthly income was assessed at £1,600. Her spending on food and utilities was about £300, with rent of £125. Her debt repayments were estimated at £250 but as I've noted £425 is a more realistic figure. This would still have left her with a disposable income of over £677 a month.

Taking account of the amount of the loan, and the short term nature of it, I think CreditSpring carried out proportionate checks, especially as Miss M had paid the previous loan satisfactorily. I think those checks showed that she could afford the first loan of £500. As she wasn't able to take up the second loan, CreditSpring didn't carry out any further checks.

I understand that Miss M feels that CreditSpring should have looked at her bank statements. There is no obligation for lenders to consider bank statements. I think the credit reference agency in this case reviewed a part of her bank account to check the salary payment but this wouldn't be a full consideration of the statement. Given the modest amount being lent I think that reviewing bank statements would have been disproportionate.

However I've looked at Miss M's statements, as she has supplied them, for the three month period up to and including the loan application. Whilst Miss M says the statements show numerous payments for gambling, I can't see any extensive spend on gambling. It does show a number of payments to an online payment service but those payments could be for any number of things apart from gambling. She went overdrawn on occasions but never, in the three months of statements I've seen, by more than £33. I should add that a lender would only be looking at non-discretionary expenditure i.e. necessary living expenses. CreditSpring wouldn't have seen the figures in the bank statements but even if it had I don't think that they would have indicated that Miss M was in difficulty over managing her finances.

So I think CreditSpring made a fair lending decision. If Miss M wants to take up its offer to accept a reduced payment against the account, she should contact CreditSpring directly. Though she should be aware that the arrangement will be noted on her credit record.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept my decision before 30 December 2022.

Ray Lawley
Ombudsman