

The complaint

Mr E (through a representative) has complained that Indigo Michael Limited (trading as SafetyNet Credit (SNC)) didn't complete enough affordability checks before providing him with the facility. Mr E says by granting the facility it pushed him further into debt.

What happened

Mr E approached SNC for a Safety Net facility in April 2018. This was a running credit account where a consumer could either request funds up to their credit limit, or funds would be deposited into their bank account once their account balance fell below a "safety net" amount of the customer's choosing. Mr E was not advanced a payday loan.

Mr E was initially given a facility with a £200 credit limit in April 2018. His limit was increased on seven occasions, with the final increase taking the credit limit to £960 in August 2019. From May 2021, Mr E's credit limit was reduced to £440.

The statement of account provided by SNC in May 2022, shows that Mr E had repaid the facility in April 2022. It isn't clear whether the facility was used after this date.

One of our adjudicator's looked at Mr E's complaint. She thought the checks SNC carried out before granting this facility showed SNC that Mr E was regularly borrowing from two other high-cost lenders, and in the three months leading up to the facility being approved, Mr E had borrowed nearly £1,400 of such credit. The adjudicator thought this use of high-cost credit – taking close to 50% of Mr E's income was an indicator that he'd be unlikely to be able to afford the repayments to SNC in a sustainable manner.

The adjudicator concluded Mr E shouldn't have been approved for this facility.

Neither Mr E nor his representative appear to have disagreed with the outcome.

SNC disagreed with the assessment, and I've summarised its response below.

- The bank transaction data showed a lack of priority bills throughout Mr E's use of the facility.
- The spending on other credit was affordable.
- Mr E had sufficient disposable income to afford the repayments that he was committed to making.
- Although SNC did say "*...it is our view that some of the later lending may not have been fully appropriate with the level of other credit spending seen towards the end of 2019, we wish for a final view to be issued.*"

As no agreement could be reached the complaint has been passed to me for a 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.

I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the facility was provided.

To start with, Mr E wasn't given a payday loan. Instead, he was provided with a credit facility where there was an expectation it would be repaid within a reasonable period of time. Interest is charged on any balance at 0.8% per day for the first 40 days following the drawdown. After the 40 days, a consumer will pay no further interest on that drawdown.

Throughout the lifetime of a consumer having the facility SNC maintained read-only access to Mr E's bank statements, in order to allow it to monitor a consumer's finances and to carry out additional affordability assessments.

Finally, Mr E's expected repayment would be 5% of the amount owed plus any interest, fees or charges. But a minimum amount of £20 would be expected to be paid. Therefore, when Mr E's facility was approved for £200 SNC needed to satisfy itself that Mr E would be in a position to make the repayment of £20, by carrying out a proportionate check.

In this case, SNC had a fairly good idea of Mr E's income and expenditure because it had read only access to his bank statements for around 90 days preceding the facility being granted. It then used an algorithm to establish what Mr E's income and what his expenditure was, after completing this check, in this case, SNC was satisfied that Mr E could afford the minimum repayment towards the facility.

It also carried out a credit search before the facility was granted. I've considered the summary of results SNC has provided, and there doesn't appear to have been anything in those results which would've led SNC to either decline the application or prompted it to have carried out further checks before the facility was approved.

Having reviewed the bank transaction data in the 90 days leading up to the facility being granted, I agree with the adjudicator that based on what SNC saw it shouldn't have granted the facility.

The facility was approved at the end of April 2018, and SNC would've been aware from the transaction data, that Mr E had started to take a number of payday loans each month. For example, in March 2018, SNC was aware that Mr E had taken out 3 new payday loans taking £796 – this was only capital and therefore with interest Mr E would've owed considerably more. One of these loans was repaid at the end of March 2018 –for £433 which is worth around a third of Mr E's income, a not insignificant amount.

However, Mr E then returned within a week for a new one. By 8 April 2018, he owed two payday lenders, across three loans a total amount of £825. Given, his modest income of around £1,200 per month, I do think Mr E was already significantly indebted to two high-cost lenders across three payday loans.

I've thought about SNC's comments about his other bills and the expenses it would've been aware of in the transaction data. I do agree, there does appear to be very little in the way of other credit expenditure i.e., to other loans or to credit cards for example. But there are payments for subscription services.

In addition, given Mr E's job, it seems that he would've not likely had for example rent payments (or if he did these aren't visible in the transaction data) but there are lots of other transactions for food. Which is likely as a result of where Mr E was based.

So, I don't think the absence of other credit commitments or living costs, means this complaint shouldn't be upheld. Especially, when Mr E had a significant amount of capital due to payday lenders when the facility was approved, which to me is a sign that he was overindebted and therefore the repayments for this facility were unlikely to be affordable.

I'm therefore upholding Mr E's complaint in full and I don't think SNC should've approved the facility.

Putting things right

If there is a debt which has been sold to a third party, SNC should, if it wishes, buy the debt back and then carry out the redress below. If it isn't able to or doesn't wish to buy the debt back then it needs to work with the third party to achieve the same results.

- A) Remove all the unpaid interest, fees and charges from the account from the start of the facility.
- B) Treat all payments Mr E has made towards his account since 4 May 2021 as though they had been repayments of outstanding principal.
- C) If at any point Mr E would've been in credit on his account after considering the above, SNC will need to refund any overpayments with 8% simple interest* calculated on these payments, from the date they would have arisen, to the date the refund is paid.
- D) If there is an outstanding principal balance, then SNC can use any refunds calculated as part of "C" to repay this. If a balance remains after this, then SNC should try to agree an affordable repayment plan with Mr E. If SNC has previously written-off any principal, then it shouldn't pursue outstanding balances made up only of principal it has already written-off.
- E) SNC should remove any adverse payment information recorded on Mr E's credit file from the start of the facility.

*HM Revenue & Customs requires SNC to take off tax from this interest. SNC must give Mr E a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons I've explained above, I'm upholding Mr E's complaint in part.

Indigo Michael Limited should put things right for Mr E as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 3 February 2023.

Robert Walker
Ombudsman