

The complaint

Mr L complains that Indigo Michael Limited trading as Safety Net irresponsibly approved and increased his credit limit on an open-ended credit facility.

What happened

Safety Net approved the facility for Mr L in December 2019 with a £200 credit limit. Safety Net gave Mr L a further three credit limit increases, 11 March 2020 - £260, 11 October 2020 - £360 and 11 January 2021 - £440.

Safety Net didn't uphold Mr L's complaint and so it was referred to this service where it was looked at by one of our adjudicators. Our adjudicator didn't think Safety Net was wrong to approve the facility in the first place but thought by 1 February 2021, Mr L had shown that he couldn't afford the facility and Safety Net should have intervened at that point and suspended his account.

Safety Net didn't agree it had done anything wrong and so the complaint has been passed to me – an ombudsman 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 L 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 a drawdown. After 40 days, a consumer will pay no further interest on that drawdown.

I think it would be helpful for me to start by explaining that Safety Net gave Mr L this facility when it was regulated by the Financial Conduct Authority (FCA) and the relevant regulatory rules in place at the time were set out in the Consumer Credit Sourcebook ("CONC") section of the FCA Handbook of rules and guidance.

Overall, the guidance didn't require Safety Net to carry out any set level of checks, but it did require its checks to be proportionate and any checks had to consider a number of different things, such as how much was being lent and when the borrowing was due to be repaid. Put simply, the lender had to gather enough information so that it could make an informed decision on the lending. Throughout the lifetime that Mr L had the facility Safety Net maintained read-only access to his bank statements, in order for it to allow Safety Net to monitor Mr L's finances and to allow it to carry out additional affordability assessments.

Looking at the initial lending decision, I think Safety Net carried out sufficient checks and from those checks I don't think there was anything that suggested Mr L couldn't sustainably

afford the initial credit limit of £200.

I think it was a similar situation at the time of the credit limit increases as well, so I don't think Safety Net was wrong to approve the facility or increase the credit limit.

Within the relevant rules, Safety Net is required to monitor how Mr L uses the facility and as it had 'read only' access to Mr L's bank statement throughout the lending relationship, it was aware of Mr L's financial circumstances and would have known if at any point the facility became unaffordable for him.

By 1 February 2021, I think Safety Net should have been concerned about Mr L's ability to repay what he was borrowing. From what I can see within the three months prior to February 2021, Mr L was using the facility as a series of payday loans, where he was drawing down the maximum and repaying all that he borrowed including interest within the next month. This had an impact on his overall finances.

Also, between November 2020 – January 2021, Mr L had returned direct debits in those months and his account went into credit following the drawdown from the Safety Net facility. Also, considering Mr L's income and expenses over those months, he wasn't sustainably repaying what he was borrowing as he appeared to be borrowing regular from Safety Net to be able to survive in those months. This wasn't the purpose of this facility and I think by 1 February 2021, Safety Net shouldn't have allowed Mr L to continue to draw down on it.

As it hasn't done this, I think that has caused Mr L some loss and Safety Net has to put it right.

Putting things right

To put things right for Mr L, Safety Net should;

- Remove all the unpaid interest, fees and charges applied to the account from 1 February 2021 onwards
- Treat all payments Mr L has made towards his account since 1 February 2021 as though they had been repayments of outstanding principal.
- If at any point Mr L would have been in credit on his account after considering the above, Safety Net should refund any overpayments with 8% simple interest* calculated on these payments, from the date they were made, to the date the refund is made.
- SafetyNet Credit should remove any adverse payment information recorded on Mr L's credit file from 1 February 2021.

*HMRC requires you to take off tax from this interest. If Mr L asks for a certificate showing how much tax has been taken off, Safety Net should provide this.

My final decision

For the reasons given above, I uphold Mr L's complaint in part and direct Indigo Michael Limited trading as Safety Net Credit to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 2 February 2023.

Oyetola Oduola
Ombudsman