

The complaint

Miss M complains about two loans provided to her by Chetwood Financial Limited, ("Chetwood"), which she says were unaffordable.

What happened

Chetwood agreed two loans for Miss M. Loan 1 was for £11,500 and was taken out in June 2019. Loan 2 was for £12,900 and was taken out in October 2021. From the most recent information I've seen, it appears that both loans haven't been repaid. Some of the information Chetwood provided about the loans is shown in the table below.

Loan number	Start date	End date	Loan amount	Monthly repayments	Loan term (months)
1.	8/6/2019	Unpaid	£11,500	£205.05	84
2.	1/10/2021	Unpaid	£12,900	£241.62	84

Our adjudicator's view

Our adjudicator noted that Chetwood had offered to settle Loan 2 and that Miss M had accepted the offer. So, he didn't comment further on Loan 2. With regard to Loan 1, he didn't recommend that Miss M's complaint about this loan should be upheld. He said that the lender should've taken steps to build a more detailed picture of Miss M's financial situation. He couldn't see that it did this. He'd looked at the information Miss M had sent this Service and considered whether Chetwood would've done anything differently had it seen this information before lending to her. But based on this information, he hadn't seen anything which suggested the lender would've concluded that Miss M wouldn't have been able to have sustainably repaid this loan.

Miss M disagreed and responded to the adjudicator's view to say, in summary, that:-

- Her credit file clearly showed an increased borrowing over a short period of time. This showed she was trapped in a cycle of debt which was ever increasing by taking on high interest loans which increased her overall debt.
- She asked to see Chetwood's credit file to check that this showed a number of high interest loans along with payday borrowing.
- She said that at the time she had Chetwood's loans, she also had loans with three high cost lenders and a credit card with a total amount of nearly £10,000 outstanding. She also owed her partner over £3,000.
- If Chetwood had requested her bank statements, it would have clearly seen there were issues.
- Her bank statements showed constant borrowing from and paying back her partner. The money was borrowed to pay off a loan and to ensure she could pay other bills as she was struggling to make the payments.
- She needed to continue to borrow to meet any financial commitments.
- The fact that she had to continually borrow from a partner wasn't something that would demonstrate a stable financial situation.

The adjudicator responded to say that he'd asked the lender if he could send the credit file to Miss M. But he also said that she needed to bear in mind that there was more than one credit reference agency and that they didn't all report all of a consumer's accounts. In normal circumstances, he wouldn't expect a lender to carry out more than one credit check. With regard to Miss M's bank statements, he'd had a look at these again and focussed on her income and outgoings over two whole months. He thought both months showed that Loan 1 was affordable.

Chetwood didn't agree to Miss M seeing its credit file.

As this complaint hadn't been resolved informally, it was passed to me, as an ombudsman, to review and resolve.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Miss M and to Chetwood on 10 November 2022. I summarise my findings:

As Chetwood had agreed to settle Loan 2, I'd said that I wouldn't be investigating this loan.

I'd noted that when Chetwood lent to Miss M the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook.

I'd said that Chetwood would be aware of the relevant regulations and how we considered irresponsible lending complaints, so I didn't go into detail on these points.

I'd thought about whether Chetwood completed reasonable and proportionate checks when assessing Miss M's application for Loan 1 to satisfy itself that she would be able to make her repayments without experiencing adverse consequences. I'd thought about the information it knew, and what it ought reasonably to have known.

Loan 1

Loan 1 was for £11,500. I'd noted that Chetwood had gathered some information from Miss M about her income, rent and regular expenditure. It had also carried out a credit check.

Chetwood's business file showed Miss M's net monthly income as £1,510 and it said that it had verified this via a credit reference agency database. Chetwood's file showed Miss M's rent as £160 and her monthly living costs as £400. Chetwood's credit checks showed monthly credit commitments of £130. Chetwood calculated that Miss M had a monthly disposable income of at least £604. I couldn't see that Chetwood had obtained independent verification of Miss M's living costs.

Chetwood didn't provide this Service with its original credit checks, but it had provided its own report of these. I'd asked the adjudicator to ask Chetwood for a copy of the original checks. It hadn't provided these but had provided some more information from those checks. I'd noted that Chetwood's report said that Miss M had four active credit accounts. There were three credit cards with a total balance of £2,131 and a current account balance of £8. I'd noted that Miss M's credit card balances had exceeded credit limits twice in the 12 months prior to the loan application. I thought this might have caused Chetwood concerns in view of the monthly disposable income amount calculated by Chetwood. It didn't appear that there was data available in the credit checks regarding short term loans and fixed term loans. In the absence of such information in the credit checks, I thought Chetwood ought to

have gathered information from Miss M about her loans to verify her actual expenditure on credit commitments each month. But I couldn't see that it did this.

Miss M was entering into a significant commitment with Chetwood. She was borrowing a relatively large amount and she needed to make monthly repayments of around £205 for 84 months which wasn't an insignificant period of time. So, I thought the loan term together with the loan amount ought to have suggested to Chetwood the need to carry out further checks rather than relying on the information provided by Miss M and the credit check results. As I couldn't see that Chetwood did take further steps to verify Miss M's financial situation, I didn't think that the checks it carried out before providing Miss M with her loan were reasonable and proportionate.

As reasonable and proportionate checks weren't carried out before this loan was provided, I couldn't say for sure what they would've shown. So, I needed to decide whether it was more likely than not that a proportionate check would have told Chetwood that Miss M would have been unable to repay this loan without experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation. I'd carefully considered the information provided.

I'd reviewed a credit report on another of Miss M's complaints with this Service from around the time of Loan 1 to find out more about Miss M's credit commitments. Miss M had also provided this Service with her current account statements from around the time of Loan 1 and I'd asked the adjudicator to ask Miss M for more information about her financial situation. I'd reviewed all this to give me the best picture of what the lender was likely to have seen if it had made better checks, although I wasn't suggesting that these were the checks that Chetwood should have done.

The credit report I'd reviewed suggested that Miss M was having serious difficulty managing her finances. She'd borrowed a loan of around £6,405 in March 2019 which appeared to have been used to repay a loan for £6,311 which she'd borrowed seven months earlier. And in the four months prior to her loan application Miss M had borrowed what appeared to be eight short term loans totalling around £3,050. The most recent short term loan for £850 was taken out just six days before her loan application to Chetwood. She'd taken out a loan of £650 in November 2017 which appeared to be unpaid. In May 2019, Miss M had a £1,964 balance on one of her credit cards which was near its credit limit of £2,000. One of her two mail order accounts appeared to be in arrears.

I could see from Miss M's current account statements that her monthly income varied between around £1,290 to £1,520. Miss M said that the variations were due to sickness or because her overtime varied. I could also see that Miss M wasn't paying most of the usual living costs from her account and that there were numerous large transfers to and from her partner. I'd asked Miss M about the transfers. She said she was trapped in a cycle of debt and was borrowing from her partner along with loads of other companies to pay what she owed and as the interest grew, the further she got trapped in the situation. She'd paid what she could afford to her partner for the bills.

I could also see that Miss M received the loan of £850 I'd referred to above in early June 2019 and she was making a monthly loan repayment to a high cost credit provider of around £279. I also noted that there was some gambling. In the eleven days period from 27 May 2019 she had spent around £400 on online gambling transactions.

So, if Chetwood had carried out what I considered to be proportionate checks, I thought it was likely it would have discovered Miss M's income was sometimes likely to have been less than she'd declared, her reliance on her partner to pay living costs and to borrow from him,

the extent of her other financial commitments including a likely recent reliance on short term loans and her expenditure on gambling. I thought Chetwood ought reasonably to have realised that Miss M was over committed financially and that she was having significant difficulties managing her finances. Miss M's finances didn't appear to be stable and I didn't think that further checks would have provided the assurance Chetwood needed. And I thought Chetwood ought reasonably to have realised that it was unlikely that Miss M would've been able to repay Loan 1 without her having to borrow to meet the repayments, without her failing to make any other repayment she had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on her financial situation.

So, I thought Chetwood made an unfair lending decision when it agreed to lend Loan 1 to Miss M. And, subject to any further representations by Miss M or Chetwood, I intended to uphold Miss M's complaint about Loan 1, and I set out a method of putting things right for her which addressed Chetwood's failings and Miss M's loss.

I'd noted that Chetwood had agreed to uphold Miss M's complaint about Loan 2. I hadn't included redress directions for that loan as it appeared that Chetwood had already provided the redress for that loan. If that wasn't the case, I'd said that the parties should tell me so in their responses to my provisional decision.

Miss M responded to my provisional decision to say that she agreed with my findings and my instructions to put things right.

Chetwood disagreed with my provisional decision and responded to say, in summary, that:-

- It was unable to see any adverse information on its credit checks and there were no missed payments. There were no active short term loans shown.
- It had reviewed the affordability checks and data available at the time of the application, and it didn't think that it was proportionate to ask for bank statements.
- The data included in its credit checks showed that Miss M had three short term high cost accounts previously, but they were all settled by the time she applied for a loan with it. The most recent short term high cost loan that it could see, was settled in October 2014.
- It wasn't aware that Miss M owed £3,000 to her partner. It was unable to confirm if a review of bank statements would have enabled any financial institution to determine whether payments from a partner were income, contributions to expenses or a loan.
- Miss M made her repayments on time for the first nine months. There were then repayment holidays during Covid 19 and then missed payments due to a repayment date change. Miss M's account has been up to date since July 2022 and she had made her repayments in full and on time since then.
- Its affordability assessments relied on information from the consumer and detailed bureau data. It also verified income using the Current Account Turnover database with a credit reference agency over a six month and twelve month period.
- It had no reason to suspect that the information Miss M provided about her living expenses was inaccurate.

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 have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Although I've summarised and only set out the main points of Chetwood's response to my provisional decision, I can confirm that I've read and carefully considered all of the arguments it has made. I appreciate that this will be very disappointing for it, but I am still of the view that it was irresponsible for it to have agreed Loan 1 for Miss M. I've explained my reasons in my provisional decision and I've also responded to its main points in response to my provisional decision below.

I note that Chetwood had reviewed the affordability checks and data available at the time of the application, and it didn't think that it was proportionate to ask for bank statements. Whilst it is down to the lender to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments and the total cost of the credit. I don't think it was reasonable for Chetwood to rely on the expenditure information provided by Miss M and its credit checks without verifying her expenditure given the cost of the credit, and that she needed to make monthly payments on Loan 1 of £205 for 84 months, which wasn't an insignificant period of time. She was, after all, committing to repay £17,224.34 over that period.

I think that Chetwood's affordability assessment needed to be more detailed and contain a greater degree of verification, in order for it to be reasonable and proportionate. I think this was especially the case as Miss M was entering into a substantial commitment with Chetwood and it should have taken great care to ensure that she would be able to repay the loan without suffering adverse consequences. I don't think that Chetwood's checks were enough here for it to get a clear picture of Miss M's finances at the time of her application for Loan 1 and for the lender to be confident that she would be able to make her loan repayments over the life of the agreements, without her having to borrow further or suffering other adverse financial impacts.

As I couldn't see that Chetwood did take further steps to verify Miss M's financial situation, I don't think that the checks it carried out before providing Miss M with Loan 1 were reasonable and proportionate.

I wasn't suggesting that Chetwood should have obtained bank statements. It could have also asked for copies of bills and/or receipts for her expenses and by asking her for more information about her credit commitments. But I think looking at Miss M's bank statements gives me the best picture of what the lender would have been aware of had it asked Miss M more questions here or done further checks into her circumstances and the affordability of the lending. And in the absence of anything else from Chetwood showing what this information would have shown, I think it's perfectly fair, reasonable and proportionate to place considerable weight on it as an indication of what Miss M's financial circumstances were more likely than not to have been at the time. Had it sought some verification of Miss M's spending, I think Chetwood would've been in a better position to understand Miss M's financial situation before it decided to lend to her.

Chetwood also needed to do more than just ascertain whether the loan repayments were technically affordable on a strict pounds and pence calculation. Whilst the loan payments

being affordable on this basis might be an indication Miss M could make her repayments, it doesn't automatically follow this is the case.

With regard to the bureau data, I can see that this refers to 21 unsecured loan accounts although there is no context around these. I also note that there was no available data in relation to some other fixed term loan queries. If there was no available information in the credit checks about such loans, I think Chetwood ought to have gathered more information about Miss M's loans to verify her actual expenditure on credit commitments each month.

With regard to the money Miss M owed her partner, I accept that it wouldn't be clear from a bank statement what the money transferred was for. But, in order to clarify a borrower's financial situation, I would have reasonably expected a lender to ask a consumer for more information if a bank statement was showing numerous transfers between parties.

I note Chetwood says that Miss M had made her repayments on time since July 2022 and in the first nine months of the loan. But I can't agree that just because Miss M had made her previous repayments to Chetwood, that this meant she wasn't struggling to meet them. Successfully meeting repayments doesn't automatically mean that she managed to do so without difficulty, in other words without her having to borrow to meet the repayments, without her failing to make any other repayment she had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on her financial situation.

I note that Chetwood verifies income using the Current Account Turnover database with a credit reference agency over a six month and twelve month period. But it hasn't provided any details of the results of such checks to this Service. So, I don't know whether the amounts passing through Miss M's current account were income or something else. I would query whether the income verification tool was able to accurately verify Miss M's monthly income. I note from Miss M's bank statements that the three monthly salary amounts she received before she applied for the loan ranged from £1,290 to £1,520. She was also receiving money from her partner, a family member and from a payday lender. So, I think that a more accurate income verification would have arisen from checking payslips or bank statements rather than the use of a credit reference agency tool.

I note that Chetwood had no reason to suspect that the information Miss M provided about her living expenses was inaccurate. But Miss M was entering into a commitment to make her monthly loan repayments for a relatively long period of time and I don't think it was sufficient in Miss M's circumstances for Chetwood to rely on the information provided by Miss M in her loan application without verifying it because of this. Had Chetwood looked into Miss M's circumstances in more proportionate detail then I'm satisfied that it would have thought twice about lending her what it did here.

So overall, the additional information Chetwood has provided hasn't persuaded me that I should depart from the conclusions I reached in my provisional decision. It follows that I uphold this complaint and require Chetwood to take the following steps.

Putting things right – what Chetwood needs to do

Chetwood should put things right for Miss M as follows.

- Chetwood needs to ensure that Miss M only repays the principal borrowed of £11,500 on Loan 1. In other words, she shouldn't pay any interest or charges for Loan 1. So, Chetwood should remove all interest, fees and charges applied to the loan account from when it was opened.

- Chetwood should treat any repayments made by Miss M as though they had been repayments of the principal amount of £11,500 borrowed on Loan 1.
- If this results in Miss M having made overpayments, then Chetwood should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.
- If an outstanding balance remains then Chetwood should try to agree an affordable repayment plan with Miss M, bearing in mind its obligation to treat her positively and sympathetically in these discussions.
- If no outstanding balance remains after all adjustments have been made, any adverse information recorded on Miss M's credit file as a result of the loan should be removed.

*HM Revenue & Customs requires Chetwood to take off tax from this interest. Chetwood must give Miss M a certificate showing how much tax it has taken off if she asks for one.

My final decision

My decision is that I uphold this complaint. In full and final settlement of this complaint, I order Chetwood Financial Limited to put things right as I've set out above under the heading "Putting things right – what Chetwood needs to do".

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 10 January 2023.

Roslyn Rawson

Ombudsman