

## **The complaint**

Mr C complains UK Credit Limit irresponsibly lent to him.

## **What happened**

UK Credit approved Mr C for a £5,000 loan in July 2011. The term of the loan was 60 months, with repayments of effectively £200 per month. Mr C says UK Credit lent this loan irresponsibly to him. He says UK Credit did not complete reasonable and proportionate checks; and had it done so it would've realised the loan was not affordable to him. The purpose of the loan was to help Mr C with funding towards his wedding. The loan was repaid in 2016.

Our investigator recommended the complaint be upheld. He didn't think UK Credit had completed proportionate checks. Our investigator went on to say that had further checks been completed UK Credit would've realised the loan was unaffordable. This was because he was not persuaded that the loan could be sustainably repaid by Mr C.

UK Credit disagreed with our investigator. It maintained it had lent responsibly to Mr C. It says had further checks been completed it would've still lent. This is because it maintains the further information would've likely shown Mr C could sustainably afford the repayments.

## **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 approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Mr C's complaint.

UK Credit and Mr C are aware of our services approach to unaffordable and irresponsible lending complaints, so for the sake of conciseness I won't set the detail here.

UK Credit needed to take reasonable steps to ensure it didn't lend irresponsibly to Mr C. The relevant rules, regulations and guidance at the time UK Credit lent effectively required it to carry out reasonable and proportionate checks. These checks needed to assess Mr C's ability to afford the loan and repay it sustainably over its term, without causing him financial difficulties.

There wasn't a set list of checks a lender needs to carry out, but they should've been effectively proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrower's individual circumstances.

And it wasn't sufficient for UK Credit to just complete proportionate checks – it also had to consider the information it obtained from these checks to make a fair lending decision. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without having to borrow further.

Our investigator didn't think UK Credit had completed proportionate checks. This was in essence because the information which was presented at the time raised suggestions that Mr C was not managing his finances in line with the information which had been provided (in this instance a copy of his payslip and an income and expenditure assessment). This was highlighted by negative markers such as one of Mr C's credit cards being two months in arrears and a previous default from three months prior to the application for a bank account (the amount defaulted was approximately £250). Mr C also had a credit card which had sustained arrears and seemingly a delinquent amount on it which had been reduced but was still showing as being in arrears. This prompted our investigator to conclude that proportionate checks would've involved gaining a better insight into Mr C's finances before making a decision to lend.

UK Credit did not raise new objections to this finding in the response to our investigator's assessment; and as such I can reasonably conclude it is in agreement with it. But for the sake of completeness; I'm also satisfied that the checks which UK Credit completed were not proportionate in this instance. This is for effectively the same reasons that our investigator outlined to UK Credit. I'm satisfied there was sufficient information to demonstrate that Mr C's outgoings needed further checks before UK Credit could make a fair decision to lend.

As I'm satisfied that proportionate checks weren't completed; I've gone on to consider what further proportionate checks would've likely shown. In this instance Mr C has provided copies of his bank statements. And in the absence of any contrary information I'm satisfied that this information should carry sufficient weight. As such I've used this information when coming to my decision.

The statements show that Mr C was receiving the level of income he disclosed on his application. However, the statements suggest his outgoings, or at least the way he was managing his finances, was such that he was not in a position to sustainably repay the amount being advanced by UK Credit.

UK Credit says the loan was affordable to Mr C; as the statements suggest he had sufficient income to meet the repayments. At this point I do think it's important for me to set out that UK Credit was required to establish whether Mr C could sustainably make the loan repayments – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

The statements show Mr C was utilising his overdraft heavily; and that his income was not sufficient to place him in a credit position for any sustained period of time. And whilst utilising an overdraft may, in itself, not be enough for a case to be considered unaffordable, I'm satisfied in this instance it suggested sufficiently that Mr C wasn't managing his finances in a sustainable way.

The statements suggest that Mr C was using other forms of credit to help supplement his income such as a bank loan, and a recent short term loan. Whilst UK Credit's searches showed the unsecured loan, they did not show the short term loan. This is in addition to the previously highlighted recent default; and the fact Mr C had arrears on multiple accounts. Taking this into account I'm satisfied that it demonstrates Mr C was struggling to meet his existing repayments sustainably without having to borrow further or incurring financial difficulties.

As such it follows that, I'm satisfied he likely couldn't have sustainably afforded this loan either. I'm persuaded that UK Credit should've reasonably come to this conclusion too had it

completed further proportionate checks. As such I'm satisfied UK Credit acted unfairly when it approved this loan to Mr C.

### **Putting things right**

Mr C has had to pay for additional interest and charges on a loan he should not have been provided with. So I'm satisfied Mr has lost out as a result of UK Credit's actions and as such it needs to put things right.

Having considered all of the information I require UK Credit to:

- refund all of the interest and charges Mr C has paid related to this loan;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information in relation to this loan from Mr C's credit file.

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

### **My final decision**

My final decision is that I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 9 February 2023.

Tom Whittington  
**Ombudsman**