DRN-3882265

The complaint

Miss L complains Valour Finance Limited trading as Savvy.co.uk (Valour) gave her a loan which she says was unaffordable.

What happened

Miss L was advanced one loan from Valour on 25 November 2020. She was advanced £1,300 and she was contracted to make 15 monthly repayments of £173.33. Valour says this loan was settled on time and Miss L didn't incur any late fees.

Following Miss L's complaint Valour wrote to her to explain that it wasn't going to uphold her complaint because it carried out proportionate checks which showed it Miss L would be in a position to afford her loan repayments.

Miss L, unhappy with this response, referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint, and she didn't uphold it. She said the information Valour gathered from Miss L (income, expenditure and a credit check) showed she was able to afford the loan and she couldn't see anything within the checks which may have indicated Miss L was having (or likely having) financial difficulties.

Valour didn't respond to the adjudicator's assessment.

Miss L didn't agree with the outcome and asked for an ombudsman to review the case because she believes it was irresponsible for Valour to have provided the loan. As no agreement has been reached, the case has been passed to me to resolve.

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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Valour had to assess the lending to check if Miss L could afford to pay back the amount she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Valour's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss L's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Valour should have done more to establish that any lending was sustainable for Miss L. These factors include:

- Miss L having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Miss L having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Miss L coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Miss L.

Valour was required to establish whether Miss L could *sustainably* repay the loan – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Miss L was able to repay her loan sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Miss L's complaint.

For this loan, Miss L declared she had a monthly income of around £1,600 which was made up of a salary and benefits. Valour says as part of its income verification checks, it discovered that within the last year, Miss L's lowest monthly salary was £1,305 – and it was this figure that was used when carrying out its affordability assessment rather than the figure Miss L provided on the verification telephone call.

Miss L declared total monthly outgoings of £923.50. This left, Miss L with at least £381.50 (based on the lower income figure) of monthly disposable income to be able to afford the contractual repayments. Based on Valour's income and expenditure check, the loan appeared affordable for her.

Valour has also said, it carried out a credit search and it has provided the Financial Ombudsman with the results that it received from the credit reference agency. It is worth saying that there was no requirement within the regulations at the time for Valour to have carried out a credit search let alone one to a specific standard. The data that Valour received may also not be the same as the information Miss L can see in her credit report. There are a number of reasons for this, including but not limited to;

- Delays in reporting information to the credit reference agencies by other credit providers.
- Not all lenders report to all credit refence agencies – which can mean that a lender may not be aware of some or all adverse credit file data.
- A lender may only request certain information from the credit reference agencies such as the number of defaults within the last 12 months rather than how many defaults are recorded on the credit file in total.

But what Valour couldn't do is carry out a credit search and then not react to any concerning information that it may have seen. But it was entitled to rely on the information it received from the credit reference agency.

Looking at credit file data provided by Valour it was aware of two active mail order accounts, one account Miss L was paying £15 per month towards and another that had a balance of just over £4,100. It also knew that Miss L had a current bank account and two "*comms/supply*" accounts. On the verification call Miss L confirmed she had two mobile phone contracts, so this is likely to be those.

All of these accounts were up to date with no indication that Miss L was either struggling to repay these balances or had any missed payment markers recorded against her.

The information that Valour had from the credit reference agencies didn't suggest that Miss L would likely have problems repaying her loan or had problems repaying existing debt. I accept, that the information Valour saw may not reflect exactly what Miss L can see in her full, credit report. For example, Valour wasn't aware of the loan Miss L took in October 2020 from another high-cost credit provider, and I've explained the reasons why that may be the case above.

There was also nothing else in the information that I've seen that would've led Valour to believe that it needed to go further with its checks – such as verifying the information Miss L had provided.

Given it was still quite early on in the lending relationship, I think it was reasonable for Valour to have relied on the information Miss L provided. This along with the income and expenditure figures, verification call and the credit search showed she had sufficient disposable income to afford the repayments she was committed to making. So, I'm not upholding Miss L's complaint about this loan.

My final decision

For the reasons I've explained above, I'm not upholding Miss L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 16 February 2023.

Robert Walker
Ombudsman