DRN-3901447

The complaint

Mrs H, through her representative, complains that Valour Finance Limited, trading as Savvy.co.uk, lent to her irresponsibly.

What happened

In August 2020, Mrs H was approved for one loan repayable over 15 months. After various checks were carried out Valour offered Mrs H a £2,000 loan. She reduced it to a £1,500 loan and the repayments were fifteen lots of £200 each month. Mrs H repaid the loan on time and with no missed payments. The total paid was £3,000.

Mrs H said: '*By continuing to approve loans that were unaffordable, I got into further debt and suffered financial hardship as a result.'*

After Mrs H had commenced the complaint, Valour replied with its final response letter (FRL) in which it gave reasons why it considered it had carried out sufficient checks and had rightly approved the loan as Mrs H could afford it. It spoke to Mrs H on the telephone and that recorded call has been provided to us. Valour had access through Open Banking to her current account into which her salary of around £2,700 a month after tax was paid. It had carried out a search of her credit file and the details in that search also showed up as payments out of her bank account as transactions.

Mrs H, through her representative, referred it to the Financial Ombudsman Service. One of our adjudicators looked at all the information Valour provided to us and decided that Mrs H had too many credit commitments and usual household bills to be able to afford this £200 a month for the Valour loan.

Valour disagreed and gave reasons as to why. I have reviewed them and our adjudicators response to those.

The unresolved complaint was passed to me to decide.

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.

Valour needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs H could repay the loan in a sustainable manner. These checks could include several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

In the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Valour should fairly and reasonably have done more to establish that any lending was sustainable for the consumer.

These factors include:

- 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 level of income);
- having many 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);
- 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. But as Mrs H took one loan only from Valour then this does not really apply to her complaint.

Valour was required to establish whether Mrs H could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. The loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines 'sustainable' as being the ability to repay without undue difficulties. The customer should be able to make repayments on time, while meeting other reasonable commitments, and without having to borrow to meet the repayments.

And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower will not be able to make their repayments sustainably if they need to borrow further to do that.

I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Mrs H's complaint. I have decided to uphold Mrs H's complaint. And I have not seen fit to decipher on which sums were added into which calculation. I've made it simpler than that. By using the credit search results Valour carried out in August 2020 and by reviewing the full transaction lists Mrs H provided to Valour then I can see Mrs H was not able to afford this loan without the figures being very tight indeed.

Mrs H's credit file reveals that she was committed to pay each month:

- £730 a month for her mortgage (and this shows as just under £762 on her bank transaction lists in August 2020)
- £447 on a second secured loan
- £399 on another loan
- £397 on another loan
- £18 on a recently taken loan
- £22 and £10 on two loans which had '(comms)' marked next to it and on the transaction lists I have seen that Mrs H was paying for two sets of telephone bills.

In addition to the above, which comes to £2,023 (when using the smaller mortgage payment of £730), then Mrs H's credit file records obtained by Valour show that she had around £14,635 over four credit cards. Three of those cards were close to their credit limits. And a minimum payment would have had to have been paid to each of these cards each month. And at the absolute minimum of 3% that calculates to around £439 a month.

Reviewing Mrs H's transactions on her bank statements I have been able to identify regular payments which often added up to around £350 a month and so she was almost achieving those minimum payments for those four credit cards.

So, the total outgoings for all the above added up to £2,462.

On top of all these commitments, Mrs H was also making payments to utility bills, insurances, petrol and food and some general living expenses.

Miss H's income was around £2,700 a month after tax was paid. In my view Valour had enough information to realise that Mrs H was not able to afford the £200 a month at all, or not able to afford it easily.

And so, I consider that the loan ought not to have been approved for her. I uphold the complaint.

Putting things right

In deciding what redress Valour should fairly pay in this case I've thought about what might have happened had it had not lent to Mrs H, as I'm satisfied it ought not to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mrs H may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to reconstruct now accurately.

From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mrs H in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mrs H would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Valour's liability in this case for what I'm satisfied it has done wrong and should put right.

Valour ought to do as follows:

- refund all interest and charges Mrs H paid on 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 payment information about this loan from Mrs H's credit file;

* HM Revenue & Customs requires Valour to take off tax from this interest. It must give Mrs H a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Mrs H's complaint and I direct that Valour Finance Limited, trading as Savvy.co.uk, should put things right for Mrs H in the way I have listed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 23 February 2023.

Rachael Williams
Ombudsman