DRN-3940305

The complaint

Mr F complains that Valour Finance Limited trading as Savvy.co.uk (Valour) provided him with a loan without carrying out appropriate affordability checks.

What happened

Mr F took one loan from Valour for £750 on 25 November 2021. Mr F was due to make eight monthly repayments of £187.50. Valour says Mr F has repaid this loan.

Valour considered Mr F's complaint and concluded it had made a reasonable decision to lend based on the checks it carried out. Unhappy with this response, Mr F referred his complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator. She concluded Valour made a reasonable decision to provide the loan because it had carried out proportionate checks which showed the loan repayments to be affordable. She also didn't think Valour needed to have verified the information Mr F had provided.

Valour hasn't acknowledged or responded to the adjudicator's assessment.

Mr F said he didn't agree with the outcome. In summary he said.

- Mr F says he had three bank current accounts close to the overdraft limits.
- The checks were insufficient for Valour to have built a clear picture of his financial situation which was important given the term of the loan.
- Valour ought to have requested copies of Mr F's bank statements.
- Mr F was borrowing significant amounts from other short term loan providers.
- Mr F was already overcommitted when this loan was provided and is finances weren't stable.

As no agreement has been reached, the case has been passed to 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.

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 Mr F could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Valour's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr F'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 Mr F.
These factors include:

- Mr F 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);
- Mr F 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);
- Mr F 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 Mr F. As there was only one loan, the adjudicator didn't think this applied in Mr F's case.

Valour was required to establish whether Mr F could *sustainably* repay the loan – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr F was able to repay his 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 Mr F's complaint.

Valour asked Mr F for details of his income, which he declared to be £2,900 per month. Mr F as part of his application also declared outgoings of £662.28. This left Mr F with around £2,372 of disposable income each month – which was more than enough for Valour to reasonably conclude the loan was affordable for him.

Mr F also spoke to a Valour agent (and a copy of the call has been provided which I have listened to) in which he confirmed details of his application such as his employer and pay date, his living situation and details of his income and expenditure.

In addition, before this loan was approved Valour also carried out a credit search and it has provided the results it received from the credit reference agency. It is worth saying here that although Valour carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. Therefore, it's entirely possible that the information Valour received may not reflect the information Mr F may be able to view on the credit report that he has sent to us. There could be for several reasons for this, such as Valour only asking for certain pieces of information such as the number of active credit accounts. But what Valour couldn't do is carry out a credit search and then not react to the to the information it received – if necessary.

So, although Mr F has provided a copy of his full credit report, I'm not, in this case going to be considering it, because Valour did a credit search and has provided the results which it saw at the time of Mr F's application. So, I can see what it considered before it approved the loan. In my view, Valour was also entitled to rely on the results it was given as it didn't have anything to suggest the results were in anyway inaccurate.

The credit check results gave an overview of all the active credit accounts that Mr F had. Valour was aware of three current accounts with total overdraft balances of around £6,000. He also had five active credit cards and a mail order account with balances totalling £2,144. But Mr F wasn't at the limit at or over the limit on any of the credit cards and / or the mail order account. He also had an unsecured loan and a payment that had been noted as being insurance – which could be his car insurance.

As part of the affordability assessment Valour says that £200 was Mr F's monthly credit commitments plus £150 car insurance, this was the amount Mr F declared as part of his application and what he confirmed as correct on the phone call with the agent.

However, looking at the credit report results provided by Valour the £150 car insurance payment is there and seems about right given the insurance record that Valour could see in the credit checks.

There is also a loan with a monthly repayment of £62. However, it doesn't look like Valour took account of payments that Mr F would need to have made to service and repay his five credit cards and mail-order account – and it had access to this information about the balances and the repayments. This would likely have come to more than £130 per month.

This also doesn't cover any repayments Mr F may have to make towards his overdrafts, but I accept these didn't have a specific repayment term. All in all, I do think the £200 per month credit commitment wasn't likely to be correct given what Valour had access to.

But in saying that, even if Valour had added an additional amount to Mr F's credit commitments on top of what was already considered than the loan still would've looked affordable as Mr F would've still had a significant amount of disposable income.

In addition, the credit check results didn't show any default or any missed payments, so it would've been reasonable of Valour to believe that Mr F while having a number of credit accounts to service, he was doing so without any obvious repayment problems.

There was also anything 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 Mr F had provided. So, while Mr F has provided his bank statements, in this case, it would've been disproportionate for Valour to have considered them.

Given it was early on in the lending relationship, I think it was reasonable for Valour to have relied on the information Mr F provided which showed he had sufficient disposable income to afford the repayments he was committed to making. There also wasn't anything else to suggest that Mr F was having financial difficulties or that the loan repayments would be unsustainable for him in some other way.

I'm therefore not upholding Mr F's complaint.

My final decision

So, for the reasons I've explained above, I'm not upholding Mr F's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr F to accept or reject my decision before 15 March 2023.

Robert Walker
Ombudsman