DRN-3955788

The complaint

Mrs S complains that Inclusive Finance Limited trading as Creditspring didn't treat her fairly when she borrowed from it.

What happened

Mrs S applied for membership with Creditspring in March 2022. The membership cost £8 a month and was to last for 12 months. In this time Mrs S could borrow up to £500 with no additional costs such as interest or charges.

Mrs S applied for her first loan in March. This was for £250 to be repaid over six months. She made payments in May and June, and an early repayment amount of £157.04 in late June. Later that month Mrs S took out a second loan of £250.

Mrs S told Creditspring in July that she needed a payment holiday for August to cover annual school costs. Creditspring offered Mrs S a month's payment holiday as requested and she made her monthly payment of £41.70 in September.

Mrs S then complained to Creditspring that it should not have allowed her to open the account as she had a large amount of existing debt which she was having problems repaying. Creditspring said that it completed appropriate checks before approving Mrs S for credit and did not uphold her complaint. It offered Mrs S a reduced payment plan, and she made payments under this in October and November 2022.

Mrs S referred her complaint to us and our investigator looked into it. They found that Creditspring should have seen from the information it had that Mrs S was likely to have difficulty repaying any more credit. They recommended that her complaint be upheld and that Creditspring pays her compensation.

Creditspring didn't agree with this recommendation and asked for the complaint to come to an ombudsman to decide and it's come to me.

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've also had regard to the regulator's rules and guidance on responsible lending which lenders, such as Creditspring, need to abide by. Creditspring will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, Creditspring needed to check that Mrs S could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and to Mrs S's circumstances.

The overarching requirement was that Creditspring needed to pay due regard to Mrs S's interests and treat her fairly. The regulations gave an example of contravening this as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my considerations are did Creditspring complete reasonable and proportionate checks when it opened the account for Mrs S to satisfy itself that she would be able to repay the credit offered? If it didn't do this, what would reasonable and proportionate checks have shown and, ultimately, did Creditspring treat Mrs S fairly?

Creditspring said it asked Mrs S about her finances and cross-checked what she'd said against information from her credit file. Mrs S said her income was £3,250 a month and her expenses came to just under £200, including £50 a month on repaying existing debt.

Creditspring said the credit file information it gathered showed that Mrs S had paid £850 towards unsecured debt the previous month and £1,158 towards secured debt, a total of just over £2,000. It said this still left Mrs S with over £1,000 disposable income and it concluded the loan would be affordable for her.

In response to our investigator's findings, Creditspring said that Mrs S's secured debt payment was likely to be her mortgage payment and that the credit would still be affordable for her, given what she'd said about her other expenses. It said that there was no evidence Mrs S was in a formal debt management arrangement for any of her existing debt and any arrangements reported on her credit file might have been payment holidays, for example.

Creditspring might have been correct in these assumptions however, I think it should have realised that it didn't have the full picture of Mrs S's circumstances. It seems inconsistent to me that Mrs S would actually have this level of disposable income each month and wish to pay to have access to half this amount over a year. In addition there was a significant difference between what Mrs S told Creditspring about her monthly debt payments and what it saw from her credit file, which was that she was spending over 60% of her declared income on repaying existing debt or over a quarter on unsecured debt. I note that Creditspring knew Mrs S was working part-time and that the credit file information it saw showed unsecured debts of over £32,000 with payment arrangements for three accounts.

I've found, as our investigator did, that Creditspring should have been concerned about Mrs S's ability to meet further credit given the level of her existing debt relative to what she'd said about her means. I've concluded that it treated Mrs S unfairly when it agreed credit for her on the basis of the information it had.

In addition, I don't think any more information about Mrs S's circumstances would have reassured Creditspring that she would be able to repay the credit without difficulty. Mrs S has provided snapshots of her credit file and her bank statements from the time, which I think are reasonable to rely on to give me an understanding of what any further checks might have revealed.

Mrs S had an outstanding balance of over £19,000 on a loan and the remainder of her unsecured debt was on revolving credit accounts such as credit and store cards. Her bank statements show that her regular income was less than £1,000 a month around that time. Mrs S also received child benefit payments and money from her husband to contribute to the household living costs, which were higher than these amounts. The statements confirm that Mrs S was in a formal debt management plan with a private company and was also making a regular payment to repay a personal debt. Altogether, I've concluded that Creditspring would have declined to lend to Mrs S if it had a better understanding of her circumstances at the time.

In summary, Creditspring should have seen from the information it had that Mrs S was unlikely to be able to repay this credit without difficulty, given the extent of her existing debts, and it shouldn't have opened an account for her. Any further checks would likely have led to a decline.

Putting things right

I've concluded that Creditspring was irresponsible to open an account for Mrs S so she shouldn't have to pay any fees or charges for the money she borrowed. To put things right for her, Creditspring should:

a) Cap the amount Mrs S has to repay to the capital she borrowed, in other words £500; and
    - If Mrs S has paid more than this Creditspring needs to refund these overpayments to her along with 8% simple interest per annum* from the date of payment to the date of settlement of this complaint. In this case Creditspring needs to remove any negative information about this account from Mrs S's credit file; or
    - If Mrs S has not yet repaid the capital, then Creditspring needs to treat her fairly and with forbearance and due consideration regarding her outstanding capital balance. This may mean coming to an affordable repayment plan with her. Once the loan capital has been repaid, then Creditspring should remove any negative information about this account from her credit file.

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

My final decision

For the reasons I've explained above I am upholding Mrs S's complaint about Inclusive Finance Limited trading as Creditspring and require it to put things right for her as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 9 March 2023.
Michelle Boundy
Ombudsman