

The complaint

Mr C complains Gracombex Ltd trading as The Money Platform (Gracombex) didn't carry out proportionate affordability checks before it approved him for loans. Had it done so it would've realised he wasn't working at the time and had no income.

What happened

Mr C was advanced four loans between March 2021 and July 2021. I've included some of the information we've received about these loans in the table below.

| loan number | loan amount | agreement date | repayment date | number of instalments | highest repayment |
|-------------|-------------|----------------|----------------|-----------------------|-------------------|
| 1 | £500.00 | 08/03/2021 | 16/03/2021 | 3 | £278.67 |
| 2 | £500.00 | 24/03/2021 | 19/05/2021 | 1 | £647.00 |
| 3 | £500.00 | 31/05/2021 | 31/05/2021 | 2 | £362.00 |
| 4 | £1,000.00 | 29/07/2021 | 15/02/2022 | 1 | £1,196.00 |

Mr C had some problems repaying his final loan but was able to fully repay it following a payment plan being agreed between himself and Gracombex.

Following Mr C's complaint, Gracombex wrote to Mr C to explain that it wasn't going to uphold the complaint because proportionate affordability checks were carried out which showed the loans to be affordable. However, as a gesture of goodwill Gracombex offered Mr C a payment of £50. Mr C didn't agree and instead referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint. She thought Gracombex had made a reasonable decision to approve loans 1 – 3. However, she didn't think a fair lending decision was made at loan 4.

She said, the repayment for this loan represented a significant portion of Mr C's declared income of £1,800. In any event, the information gathered from Mr C showed that his monthly disposable income was less than the contractual loan repayment.

Finally, the adjudicator also concluded that even if further checks would've been carried out, it would've realised that Mr C was in receipt of benefits and his monthly income was around £400. This led the adjudicator to conclude loan 4 ought to not have been granted to Mr C.

Gracombex disagreed with the outcome the adjudicator had reached about loan 4. I've summarised its comments below.

- The loans were lent fairly and “*..in line with all regulatory requirements*”.
- Gracombex explained it was able to offer an ex-gratia payment of £50.
- By the time of loan 4, Mr C's overall debt had dropped from £3,447 to £2,321 - which shows his finances were improving.
- The customer's credit score improved from 254 to 277.

- The gaps between the loans had increased, therefore showing no signs of dependency.
- While loan 4 was the largest loan, Gracombex only offered such a loan due to Mr C's good repayment history.
- Mr C's income was checked and verified for each loan.

Mr C appears to have accepted the outcome reached by the adjudicator. He did have some comments about the total amount he repaid for loan 4 and when the loan was actually repaid. But the adjudicator answered Mr C's questions.

The offer of £50 was put to Mr C but he didn't accept it. As no agreement could be reached the case was then passed to an ombudsman to make a decision about the complaint.

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.

Gracombex had to assess the lending to check if Mr C could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Gracombex'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 Mr C'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 Gracombex should have done more to establish that any lending was sustainable for Mr C. These factors include:

- Mr C 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 C 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 C 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 C.

Gracombex was required to establish whether Mr C could *sustainably* repay the loans – 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 C was able to repay his loans 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 C's complaint.

Neither Gracombex nor Mr C appear to disagree with the outcome the adjudicator reached about loans 1 - 3. I therefore no longer think these loans are in dispute and so I say no more about them.

Instead, this decision will focus on whether Gracombex made a reasonable decision to provide loan 4.

Loan 4

This was Mr C's largest capital loan, and he was due to make one repayment to Gracombex of nearly £1,200. I've considered what Gracombex says that it only offered this loan because of what appeared to be an improving debt situation and he'd repaid his other loans without any obvious difficulties. And while that may be the case, that doesn't remove Gracombex's obligation to carry out a proportionate affordability check. And that is what I've thought about for this loan when deciding whether it did enough, considering what Mr C declared as well as Mr C's previous dealings with Gracombex.

Gracombex has shown, that as part of the affordability assessment it asked Mr C for details of his income. Mr C's income has been recorded as being £1,800 per month – which is the same amount he had declared for his previous loans. Gracombex says this income was electronically verified.

In terms of outgoings, Gracombex says;

“Affordability - After taking into consideration all the customers debts including their rent and financial commitments alongside an estimate of non-discretionary income (as per ONS estimates) the customer had ample affordability”

The ONS refers to the Office of National Statistics. For this loan, Gracombex calculated a monthly disposable income of £1,051. I'll deal with this figure later. But what I will say, is that Gracombex needed to consider whether it knew enough about Mr C's situation given on its own figures the loan was unaffordable as the loan required a single repayment of £1,196 to settle it.

Before this loan was approved Gracombex also carried out a credit search and it has provided the Financial Ombudsman with a copy of the results it received from the credit reference agency. I want to add that although Gracombex carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard.

Therefore, it's possible that the information Gracombex received may not entirely reflect the information Mr C may be able to see in his own credit report. There could be for a number of reasons for this, such as Gracombex only asking for certain pieces of information. But what Gracombex couldn't do, is carry out a credit search and then not react to the to the information it received – if necessary.

Gracombex was also entitled to rely on the information it was given by the credit reference agency. So, I've looked at the results to see whether there was anything contained within it that would've either prompted Gracombex to have carried out further checks or possibly have declined Mr C's application.

Before reviewing the results, I think there was already an indication that Mr C was overindebted, this is because Gracombex knew that he was already committed to spending £1,196 to settle this loan. On top of this Gracombex knew Mr C had around £2,321 of total outstanding debt that would've also needed servicing. Gracombex was therefore already on notice that Mr C was likely going to need to commit at a minimum – 66% of his income to meet his credit commitments. This is a not insignificant percentage. This is also in addition to my concerns about Mr C's total disposable income which I've mentioned above.

However, looking more closely at the credit check results provided by Gracombex there aren't any indicators that show that Mr C may have been in financial distress. For example, there doesn't appear to be any insolvency markers. Gracombex's checks also show there wasn't any history of Mr C having difficulties repaying previous credit.

I am not able to explain why Mr C's credit score appeared to be improving the longer he borrowed money. But I don't think I need to explain this in order to come to a fair outcome. This is because, both Gracombex's own checks as well as the information it likely would've discovered by carrying out a proportionate check would've shown it the loan wasn't affordable for Mr C.

Gracombex knew, from its own checks that Mr C only had £1,051 per month of disposable income and yet the repayment he needed to make was more than that. This would indicate that this loan was unaffordable, because based on the information it had, Mr C didn't have sufficient income to be able to afford the repayment.

This is more than enough in my view to say the complaint ought to be upheld, especially, when thinking about the fact that Gracombex expected Mr C to pay around 66% of income towards just one credit commitment, and it knew that at the time Mr C had other credit that also needed repaying.

So, I'm going to conclude the reasons above are sufficient to uphold the complaint even though Gracombex may have felt – although it's not clear why - the loan looked affordable on a 'pounds and pence' basis.

But as I explained above that is not the only part of the consideration. Given that in my view Mr C was already committed to spending a significant portion of his income solely serving this loan I think Gracombex's checks needed to go further. This was to ensure that Mr C would be able to repay the loan in a sustainable manner.

One-way Gracombex could've done this was to review Mr C's bank statement. I accept that that this wasn't the only documentation Gracombex may have asked to see. But as I think it needed to gain a full understanding of Mr C's financial position the bank statements are the easiest way of doing this.

Mr C has provided copy bank statements for the months leading up to this loan being approved, so I've reviewed the statements to see what they show. I can see, like the adjudicator that Mr C was on benefits at the time and wasn't receiving a salary – this meant his income was around £400 per month. This income is obviously far too low to support a loan repayment of £1,200 and knowing this the loan ought to not have been granted.

I appreciate Gracombex's credit checks appear to support the fact he was working, but the evidence I've been provided is quite clear in showing Mr C was receiving benefits at the time.

So, I'm upholding Mr C's complaint about loan 4.

Putting things right

In deciding what redress Gracombex should fairly pay in this case I've thought about what might have happened had it not lent loan 4, as I'm satisfied it ought to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

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

Or, he 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 he 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 now accurately reconstruct. 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 Mr C in a compliant way at this time.

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

Gracombex shouldn't have provided Mr C with loan 4.

- A. Gracombex should add together the total of the repayments made by Mr C towards interest, fees and charges on the loan, including payments made to a third party where applicable.
- B. Gracombex should calculate 8% simple interest* on the individual payments made by Mr C which were considered as part of "A", calculated from the date Mr C originally made the payments, to the date the complaint is settled.
- C. Gracombex should pay Mr C the total of "A" plus "B".
- D. Gracombex should remove any adverse information it has recorded on Mr C's credit file in relation to loan 4.

*HM Revenue & Customs requires Gracombex to deduct tax from this interest. Gracombex should give Mr C a certificate showing how much tax it has deducted if he asks for one.

My final decision

For the reasons I've explained above, I'm upholding Mr C's complaint in part.

Gracombex Ltd trading as The Money Platform should put things right for Mr C as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 6 April 2023.

Robert Walker
Ombudsman