

The complaint

Miss G's complaint is about a second charge mortgage she has with Evolution Money Limited. She says the loan was unaffordable and considers Evolution lent irresponsibly as it inappropriately took money she received from other people living in her property into account when assessing the affordability of a loan secured on her home.

What happened

At the time of the sale Evolution went through Miss G's circumstances and her finances. Her income from her job, and the contributions made to the household by her partner and a relative that were living with her were confirmed. It was explained that she had for a period been caring for another relative's children without any financial support, so she'd run up debt on credit cards. The children were no longer living with her, and she had arranged a debt management plan for the credit card debt. She wanted money for home improvements and to consolidate the credit card debt.

Evolution told Miss G that it wouldn't lend her the money to consolidate the credit card debts. This was because she wasn't paying interest in the debt management plan, but would be if she consolidated the debt. However, it agreed to lend her the money she wanted for home improvements. It completed an affordability calculation taking account of the household and Miss G's expenditure, her earned income and the money her partner contributed to the household. It was explained by the adviser that he hadn't taken the money being paid by a relative into account as it had only been being paid for a few months, and Evolution usually didn't take such payments into account unless they'd been received for at least six months. The affordability check showed that the loan was affordable, and Miss G would be left with about £140 disposable income each month. Miss G was told how much the loan would cost her and asked if she could afford that amount. She confirmed that she could. Subsequently, Evolution asked Miss G for evidence of income and outgoings, including the money she was receiving from her partner.

Miss G took a loan with Evolution in late 2020 for a little under £20,000 (including fees) and a term of eight years. The monthly payment was £388.24.

Miss G complained to Evolution in December 2021. Following this Evolution spoke to Miss G to discuss her circumstances and see if it could assist her. She explained that she had split up from her partner, her relative had moved out and her medical situation had necessitated her taking a new job with a reduced salary, and so her income overall had reduced. An income and expenditure exercise was done, which identified that Miss G's income was around £300 less than her monthly outgoings. Evolution put a hold on the account to allow Miss G some breathing space to explore if she qualified for any benefits or other financial assistance.

Evolution responded to the complaint in a letter dated 17 January 2022. It explained the process it went through before a loan was agreed and this included an assessment of affordability. Based on the information Miss G gave it, it was established that the loan was

affordable. Evolution was satisfied that it had taken reasonable steps to ensure affordability, as it was required to do by the Regulator.

In relation to taking account of the money Miss G received from others living in her home, Evolution said that this was discussed when it asked about other sources of income. It said it had been aware that the money she was receiving from a relative was not a long-term arrangement, although she didn't know when it would stop and so some of it was included in the affordability calculation. However, it pointed out that Miss G was receiving significantly more from her partner in an average month than the total for other incomes it had used to assess affordability. As such, Evolution was satisfied that if the income from the relative stopped, there were funds available to cover that shortfall.

Evolution also highlighted that Miss G was made aware of the details of the loan, including the monthly payment, the interest rate and the total payable over the term before she went ahead with the application. In addition, it commented that, based on what Miss G had told it at the time the complaint was made, the reason the loan was unaffordable was because of changes to her circumstances after the loan started, rather than the original assessment of her circumstances being wrong. It commented that it had asked her if she anticipated any changes to her circumstances before the loan was granted, and she'd said no.

Miss G wasn't satisfied with Evolution's response and asked us to look into her complaint. One of our investigators did, but she didn't recommend that it be upheld.

Miss G didn't accept the investigator's conclusions and told her that she'd had to start running up credit again when the money she received from her relative stopped. She said that she disagreed that it was reasonable for her ex-partner's and relative's contributions to the household to be taken into account, as they weren't guaranteed sources of income. Miss G asked where the remaining money she apparently had left was, as she barely had £100 left in her account and that was before paying the Evolution loan.

The investigator considered what Miss G had said, but it didn't change her conclusions. Miss G asked that the complaint be referred to an ombudsman.

I issued a provisional decision on 8 February 2023, which set out my conclusions and reasons for reaching them. Below is an excerpt.

'I would firstly confirm that the £200 she received each month from her relative wasn't taken into account when affordability was assessed. This was confirmed in the initial conversation Miss G had with Evolution and, having reviewed the income information contained in the income and expenditure assessment from the time, only the £600 from Miss G's partner is detailed as additional income to her paid employment. So I am satisfied that the income from the relative was not used in the affordability assessment.'

When an application is made to borrow money, the lender must assess whether the borrower can afford the repayments. This secured loan is a regulated mortgage contract, which means the provisions in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) apply. MCOB requires a lender to assess whether the customer will be able to repay the sums borrowed and interest. To do that the lender must take account of the income of the customer and their committed and basic essential expenditure.

I am satisfied that Evolution made such an assessment. Included in the assessment was the money she received from her partner. That individual was at the time of the sale living permanently in the property, was in a relationship with Miss G and contributing to the household expenses. That money affected Miss G's own contributions to the household expenses and as a result, the amount of disposable income she had to spend on improving

her home. As such, I don't consider it was inappropriate for Evolution to take Miss G's partner's contribution into account when assessing affordability in these circumstances.

Having listened to the discussions in 2020 and reviewed the income and expenditure assessment completed, I am not persuaded the loan was unaffordable at the time. Indeed, Miss G managed to pay it for a year before this changed. When it did, she confirmed that the reasons she couldn't afford it was that due to a medical situation she'd had to take a job with reduced hours, that resulted in a reduction in her income. In addition, she'd also split up from her partner and he had ceased contributing to the household expenses. As such, I am satisfied that the lack of affordability toward the end of 2021 wasn't caused by Evolution lending irresponsibly, but rather due to changes in Miss G's circumstances and I can't find that the lending decision was wrong or irresponsible.

I note that Evolution and Miss G are talking, and I am glad to see that she is being open with it about her situation. Evolution initially determined that Miss G wasn't able to pay anything toward the loan and it put a hold on the account and encouraged her to seek advice to see if she was entitled to any benefits or help from elsewhere, as I would expect it to be. I would encourage Miss G to continue the dialogue with Evolution and would remind it that it needs to do what it can to assist Miss G, and that it should explore the full range of options to assist her, including actions to stop the debt spiralling while there is limited or no affordability.'

Evolution confirmed that it had nothing further to add and accepted my conclusions.

Miss G didn't accept my conclusions. She reiterated that Evolution had acted irresponsibly when it had lent to her and highlighted the fact that she was in a debt management plan at the time showed she wasn't managing her money before the loan was applied for.

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 have again reviewed all of the information from the time of the sale, but Miss G's further comments haven't made me change my conclusions that Evolution didn't lend irresponsibly. Evolution was aware that of Miss G's debt management plan, but based on her explanation of how the debts involved came about, I am not persuaded it could reasonably be taken to indicate that she wasn't managing her money at the time of the sale. Indeed, the explanation she gave made it clear that the cause of the debt had been short-term, resolved many months earlier and her finances had improved and stabilised thereafter.

My final decision

My final decision is that I do not uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask Miss G to accept or reject my decision before 22 March 2023.

Derry Baxter
Ombudsman