

The complaint

Miss A complains that Valour Finance Limited trading as Savvy.co.uk (Valour) gave her loans that she couldn't afford to repay due to the amount of existing debt she had.

What happened

Miss A was advanced a total of three loans between March 2019 and April 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 monthly instalments	highest repayment
1	£650.00	11/03/2019	02/01/2020	12	£108.32
2	£890.00	02/01/2020	01/12/2020	16	£132.37
3	£2,000.00	13/04/2021	30/06/2022	15	£266.66

Following Miss A's complaint, Valour wrote to her to explain that it wasn't going to uphold the complaint because it had carried out proportionate checks which showed the loans were affordable. Unhappy, Miss A, then referred the complaint to the Financial Ombudsman Service.

In the adjudicator's assessment she thought Valour ought to not have provided loans 2 and 3. This is because the adjudicator thought Valour ought to have carried out further checks before granting these loans perhaps by reviewing Miss A's bank statements. Had further checks been carried out Valour would've likely discovered Miss A already owed a number of high-cost credit providers which made the loan repayments unsustainable.

Valour didn't agree with the proposed outcome. It provided the income and expenditure details it collected from Miss A when loan 3 was granted. Later on, Valour asked whether the adjudicator had seen Miss A's bank statements which the adjudicator confirmed she had. Finally, Valour disagreed that proportionate checks weren't carried out given Miss A had repaid her loans without undue difficulty and there were no missed payments on her credit file.

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.

Valour had to assess the lending to check if Miss A could afford to pay back the amounts she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Valour'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 Miss A'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 Miss A. These factors include:

- Miss A 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);
- Miss A 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);
- Miss A 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 Miss A.

Valour was required to establish whether Miss A could *sustainably* repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Miss A was able to repay her 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 Miss A's complaint.

The adjudicator didn't uphold loan 1 and neither Miss A nor Valour disagreed with the outcome about this loan. As this is the case, I no longer think there is any ongoing dispute about this loan and so I say no more about it. Instead, this decision will focus on whether a proportionate check was carried out by Valour before loans 2 and 3 were granted.

Loans 2 and 3

Miss A declared she had a monthly income of £2,556 for both loans. For both loans, Valour says an income verification check was carried out which it says confirmed Miss A received that income for at least the last year.

Miss A was also asked about her monthly expenditure this was spread across a number of different sectors such as housekeeping, bills and travel to name a few. It also looks like as part of this expenditure check that Valour used information obtained from a credit search to look at what Miss A's monthly credit commitments were.

Following the expenditure checks, it believed Miss A's outgoings for loan 2 were £1,023.55 per month and £840.75 for loan 3. This left a minimum disposable monthly income of £1,542 to afford her loan repayments of no more than £266.

In addition, before these loans were approved, Valour says it also carried out a credit search. 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. But what Valour couldn't do is carry out a credit search and then not react to the information it received.

Looking at the credit file, for loan 2 Valour knew that she had at least 10 active credit accounts. All of which appeared to have a good repayment history. She had at least three active loans and a communication contract with total monthly repayments due of £723.

For loan 3, Miss A had a similar number of active accounts, but her credit commitments appear to have reduced. However, there were signs within the closed accounts that Miss A had applied for further credit from other lenders while loan 2 was being repaid.

Loan 2 was taken on the same day that loan 1 was paid, it was for a larger sum to be repaid over a longer period of time – 16 months. There was a small gap between repayment of loan 2 before she took loan 3, but I don't think that was enough to break the lending chain considering, she returned for her largest capital loan, to be repaid over 15 months. Her monthly repayments doubled for her final loan compared to loan 2.

So, while I accept the credit file didn't show any obvious signs of financial distress, I do think the time in debt, the term of the new loans, and the fact that the capital amounts and therefore the monthly repayments increased with each new loan ought to have led Valour to consider whether it knew enough about Miss A's finances. I don't think, for these loans it was enough for it to have relied on the information she provided either on the application or the telephone call.

Therefore, I think it needed to gain a full understanding of Miss A's actual financial position to ensure the loans were affordable and sustainable. This could've been done in several ways, such as asking for evidence of her outgoings, looking at bank statements, reviewing Miss A's full credit file or obtaining any other documentation Valour felt it may have needed.

This might've helped verify information provided and revealed whether there was any other information that Valour might've needed to consider about Miss A's financial position.

Miss A has provided copies of her bank statements for the months leading up to these loans being approved and so I think it's entirely reasonable to view these. I appreciate there was no regulatory requirement for Valour to have viewed the bank statements. But as I've said above this was only one of a number of ways it could've gone about verifying Miss A's information and I consider this needed to have been done in order for a proportionate check to have been conducted.

Had further checks been carried out, before these loans, I think Valour would've thought any further lending wasn't sustainable for Miss A. When loan 2 was advanced, Miss A already had three outstanding payday loans and two high-cost credit facilities running. The cost of servicing these credit commitments was £1,810 per month. This is the majority of Miss A's income before the Valour loan was accounted for and before her other living costs were taken into account.

And when loan 3 was approved, a similar picture can be seen, Miss A was still servicing the same two high-cost credit facilities she was repaying when loan 2 was advanced – costing over £1,100 per month. She also had three high-cost credit loans that she was repaying. So again, given loan 3 was for a larger amount with a larger monthly commitment I don't think this loan was sustainable and also unlikely to be affordable given the other commitments Miss A had to pay.

Taking everything into account, Valour wouldn't have provided loans 2 and 3 had it carried out what I consider to be a proportionate check.

Putting things right

In deciding what redress Valour should fairly pay in this case I've thought about what might have happened had it not lent loans 2 and 3 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 Miss A may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular lender which they may not have had with others. 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 Miss A 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 Miss A 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 shouldn't have given Miss A loans 2 and 3.

- A. Valour should add together the total of the repayments made by Miss A towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything it has already refunded.
- B. Valour should calculate 8% simple interest* on the individual payments made by Miss A which were considered as part of "A", calculated from the date Miss A originally made the payments, to the date the complaint is settled.
- C. Valour should pay Miss A the total of "A" and B".
- D. Valour should remove any adverse information recorded on Miss A's credit file in relation to loans 2 and 3.

*HM Revenue & Customs requires Valour to deduct tax from this interest. Valour should give Miss A a certificate showing how much tax it has deducted, if she asks for one.

My final decision

For the reasons explained above, I uphold Miss A's complaint about loans 2 and 3 only.

Valour Finance Ltd trading as Savvy.co.uk should put things right for Miss A as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 18 May 2023.

Robert Walker
Ombudsman