DRN-4011186

The complaint

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

Mr W also says he was offered a loan over a longer term than he had anticipated.

What happened

Mr W took one loan from Valour for £300 on 27 March 2021. Mr W was due to make 17 repayments – every other week of £34.21. Valour says the loan has been settled.

Valour considered Mr W's complaint and concluded it had made a reasonable decision to provide the loan based on the checks it carried out, which included asking Mr W about his income and expenditure and carrying out a credit check. The results of these checks showed Valour that Mr W could afford the loan repayments.

Unhappy with this response, Mr W referred the complaint to the Financial Ombudsman. The complaint was then considered by an adjudicator. She concluded Valour made a reasonable decision to provide the loan because it had carried out a proportionate check which showed the repayments to be affordable. She also didn't think Valour needed to have verified the information Mr W had provided.

Mr W disagreed with the outcome the adjudicator had reached. In response he said:

> *"I strongly disagree with your conclusion and I am asking for it to be looked at again savvy did not properly check my income and outgoings and offered me a loan on the basis of having 300 left after bills for a month without taking into account food electric and normal daily activities I would need money for 300 plus their payment was not affordable at all and they didn't check this properly"*

As no agreement could be reached the complaint was passed to an ombudsman to decide.

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 W 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 W'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 W.

These factors include:

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

Valour was required to establish whether Mr W 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 W 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 W's complaint.

Before this loan was approved, Valour asked Mr W for details of his income, which he declared to be £1,000 per month. Valour says it carried out an electronic verification check of this amount – and the results confirmed that Mr W had received at least this amount, each month for the last six months.

As part of his application, Mr W provided Valour with details of his living costs, this was then discussed with Mr W on a telephone call with an agent as well as the information that Valour gathered from a credit search it carried out. As a result of these checks, Valour believed Mr W's monthly expenditure came to £637.60. Again, as it was the first loan Valour was entitled to rely on the information Mr W had provided.

As part of the expenditure, Mr W declared that he didn't have any rent or mortgage costs. Ordinarily, this ought to not have been accepted, especially if there was information to suggest that Mr W had for example council tax payments. But in this case, Mr W declared he lived at home with parents and didn't contribute towards any of the bills – and so it's not unreasonable for Valour to have relied on these costs.

Valour therefore reasonably believed Mr W had £362.24 per month of disposable income to be able to afford the monthly repayment of around £69. The loan looked affordable.

Mr W 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 payment date, his living situation and details of his income and expenditure.

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. But what Valour couldn't do is carry out a credit search and then not react to the to the information it received. 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 W had. From the information it received, Valour knew Mr W had a hire purchase agreement costing £228 per month and an insurance product costing £136 per month. There were also four active credit cards – with balances totalling £1,169. All of these accounts were up to date with no late payment markers, or any arears markers.

Valour calculated from Mr W's credit file that he had around £266 per month of existing credit commitments and that does appear to have been about right – based on the information it received from the credit reference agency.

And it is likely, this insurance product was for a motor car – in which case this appears to have been included in the motor costings that have been declared / calculated at £170 per month.

Taking everything into account, there wasn't, in my view, anything solely from the credit file which would've led Valour to decline Mr W's application or to have prompted it to carry out further checks.

There was also nothing 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 he had provided.

Given it was the first loan in a the lending relationship, it was reasonable for Valour to have relied on the information Mr W provided about his income and expenditure which showed sufficient disposable income to afford the repayments. So, I've concluded the checks carried out were proportionate. There also wasn't anything else to suggest that Mr W was having financial difficulties or that the loan repayments would be unsustainable for him.

I appreciate the loan term may have been longer than expected, but the term and payments were outlined in the credit agreement and the agent who discussed his application with Mr W also confirmed the same details. While the term may have been longer than Mr W expected, he did ultimately, agree to such a term and to the loan being funded.

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

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 4 July 2023.

Robert Walker

Ombudsman