

The complaint

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

What happened

Mr S took one loan from Valour for £600 on 3 December 2021. Mr S was due to make eight monthly repayments of £150. Valour hasn't said whether the loan has been repaid, but the final response letter issued in May 2022 explained that all payments up to that point had been successful.

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

Unhappy with this response, Mr S's representative referred the complaint to the Financial Ombudsman.

The complaint was 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 loan repayments to be affordable. She didn't uphold the complaint.

Valour hasn't acknowledged or responded to the adjudicator's assessment.

Mr S's representative didn't agree with the outcome and instead asked for a final decision.

As no agreement could be reached the case has been passed to me 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 S 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 S'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 S.

These factors include:

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

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

Before this loan was approved, Valour asked Mr S for details of his income, which he declared to be £1,500 per month. However, following checks Valour was able to conclude that Mr S earned around £1,900 per month but around £400 of that income had come from a zero-hour contract job. Valour says this 'extra' income wasn't used as part of its income calculation as it wasn't guaranteed. This doesn't seem to be an unreasonable course of action to have taken.

As part of his application Mr S provided Valour with details of his living costs, this was then discussed with Mr S 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 S's monthly expenditure came to £1,035.

Valour therefore reasonably believed Mr S had £465 per month of disposable income to be able to afford the payments of £150 – the loan therefore looked affordable.

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. Therefore, it's entirely possible that the information Valour received may not entirely reflect the information Mr S may be able to view in his credit report. There could be for several reasons for this, such as Valour only asking for certain pieces of information.

But what Valour couldn't do is carry out a credit search and then not react to the information it received – if necessary. 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 S had, it was aware of four active credit accounts. Two loans Mr S was paying £400 per month towards. These loans were up to date. He also had a current account that was being managed without any missed payment or over limit charges and he had a credit card which had a balance of £1,115 against a limit of £1,320. There were no missed payments on this account.

Valour calculated from Mr S's credit file that he had around £435 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.

Valour was on notice that a mail order account which was closed had been in arrears at the end of 2020 but the account was up to date when it was closed in April 2021. In addition, on the verification call, Valour also asked Mr S about a default on a mail order account – which was reflected in the credit file check. Mr S provided details as to why this account was defaulted and that he was making repayments. The explanation provided by Mr S was plausible, and it was reasonable for Valour to have accepted what he said.

Taking everything into account, there wasn't, in my view, anything solely from the credit file which would've led to Valour to decline Mr S's application or prompt 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 Mr S had provided. So, while Mr S's representatives have provided his bank statements, in this case, it would've been disproportionate for Valour to have considered them.

Given it was early on in the lending relationship, it was reasonable for Valour to have relied on its checks which showed sufficient disposable income to afford the repayments he was committed to making. So, I'm concluding the checks carried out were proportionate. There also wasn't anything else to suggest that Mr S was having financial difficulties or that the loan repayments would be unsustainable for him.

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

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 10 May 2023.

Robert Walker
Ombudsman