DRN-4127274

The complaint

Mr B, through his representative, complains that Valour Finance Limited, trading as Savvy.co.uk ("Valour"), lent to him when he could not afford it.

What happened

Mr B applied for one loan in November 2020. He was offered £1,000 but took £400 repayable at £100 a month over eight months. The loan was repaid on time.

Mr B's representative complained in October 2022 and Valour issued its final response letter in late December 2022. It explained the checks it had carried out and gave some details about the telephone call Mr B had with one of its representatives in November 2020.

That had been a comprehensive call and the Valour representative had questioned Mr B's high disposable income from the checks carried out during that call. Mr B had explained what he spent it on – discretionary spending. And so, the Valour representative had altered some of the figures to reflect the high spend in the category labelled 'socialising and entertainment' with which Mr B had agreed. Still the loan at £100 a month looked affordable and the funds were credited to Mr B's account.

After this Mr B's representative referred it to the Financial Ombudsman Service where one of our adjudicators did not think that Valour had made an irresponsible decision to lend Mr B £400. Mr B's representative said:

> *'We don't agree that the initial decision to lend to the consumer was responsible, he had defaulted accounts, credit recovery accounts, a number of missed payments, cash advances and other short-term loans in the 3 months prior which should have raised red flags with the lender to do further checks.*
>
> *Had they done further checks they would have seen that the disposable income was less than mentioned due to the other loans etc.'*

Our adjudicator issued a second view in which she addressed some of the points it had made. Her view remained unchanged. The unresolved complaint was 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 B 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've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr B 's income and expenditure.

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 B. These factors include:

- Mr B 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 B having many 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 B coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

My view is that none of these bullet points applied to Mr B's situation as he had an income of around £2,800 a month after tax which Valour had verified and I do not consider that to have been a low income. Plus, this was a first loan for a relatively modest sum over a relatively modest term.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr B . But a pattern would not have developed here as Mr B took one loan only.

Valour was required to establish whether Mr B 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 B 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, 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 B 's complaint. I've decided not to uphold his complaint and I explain here.

Valour carried out proportionate checks as it verified his income and checked his credit file which did not show any elements to prompt it to be unduly concerned. There was nothing there to indicate that Mr B was in financial difficulties or had been falling behind in his payments.
The adverse entries (defaults in 2016 and 2017) related to accounts which were well before he applied for this one and a lender such as Valour would have been used to lending to customers with some adverse credit history.

Our adjudicator has made reference in her second view to a default in May 2020 which I have not traced in the credit search Valour did. If I am wrong on that point, still it would not alter my view as one default a few months before Mr B applied as a new customer for a £400 loan would not be a reason for Valour to refuse the loan or consider that further checks were required.

The telephone call Mr B had with Valour in November 2020 was recorded and we have received a copy of that call which I have listened to.

Mr B confirmed several elements of the application and explained his income and expenditure. He was single, working full time, had no dependents or child-care or child maintenance costs. He lived at home with his parents and contributed to the household but in an informal way – he paid some money to them but he did not pay for Council Tax, home insurance, utilities, internet or home TV contracts or TV licence.

Valour was aware he spent around £789 a month on credit commitment costs one of which was a hire purchase agreement for his car. He accepted he spent a lot on socialising, holidays, clothes, and other discretionary spending.

The income and expenditure assessment Valour carried out indicated that Mr B had enough disposable income to repay the £100 a month. It said in its FRL: '*The assessment demonstrated a total monthly income of £2800.00 and a total monthly expenditure of £2116.39, including your existing debt repayments. This means that your available monthly surplus was £683.61.'*

I do not consider that the submissions Mr B's representative has made on his behalf have been made out. Reviewing its complaint letter, I have seen that many of the loans listed showing dependency on credit were taken out after this loan with Valour was approved on 14 November 2020. And so are irrelevant for the assessment of the sale of this loan.

In all the circumstances I have decided that I do not uphold Mr B 's complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 8 September 2023.

Rachael Williams
Ombudsman