

## The complaint

Ms S says Chetwood Financial Limited, trading as BetterBorrow, irresponsibly lent to her.

## What happened

Ms S took out a 36-month instalment loan for £3,000 on 16 March 2022. The monthly repayments were £123.85 and the total repayable was £4,458.80.

Ms S says it was clear she was not managing her finances well with missed payments and credit cards at their limits so she should not have been given this loan.

Our investigator did not uphold Ms S's complaint. She said BetterBorrow's proportionate checks did not show any signs the loan might not be affordable.

Ms S disagreed and asked for an ombudsman's review so the complaint was passed to me.

I reached a different decision to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments by 26 June 2023.

### *Extract from my provisional decision*

*I have reviewed the checks that BetterBorrow carried out prior to lending to Ms S. It asked about her income and employment status. It checked her declared income using an external verification tool. It asked about her residential status and housing cost. It used 50% of the mortgage value it could see from its credit check. It used national statistics to estimate Ms S's living costs. It calculated her monthly credit commitments from its credit check. It added a buffer for unexpected expenses and from these checks combined, it concluded Ms S could afford this loan.*

*I think these checks were proportionate, but I don't currently think it made a fair lending decision based on the information it gathered. I'll explain why.*

*BetterBorrow's affordability assessment used the following monthly figures for Ms S - income of £2,641; housing costs of £1,066, living costs of £629; existing credit commitments of £551 with an expenses buffer of £158. But I don't think the credit commitments were calculated correctly. Ms S had credit card limits of £5,850 and we would expect a lender to take into account a sustainable repayment (so 5%) of that full limit. This means Ms S's existing credit commitments were £292.50 on cards plus £395 on loans – so £687.50. This raises two concerns for me: firstly using BetterBorrow's methodology of adding a £158 buffer this would have meant Ms S did not have the disposable income to cover this loan. Even with a much lower buffer of say £50 Ms S would only be left with around £85 disposable income each month and I don't think this would be sustainable give the three-year loan term.*

*Secondly giving this loan would have meant Ms S could have needed to spend 30% of her income on credit each month. This is a significant amount and such a level can be an indicator of future financial difficulties. Plus, Ms S already had an overdraft of £2,877 and the*

*above assessment does not provide for any repayment of this debt - and it ought to. Ms S's reliance on this facility should also have highlighted to BetterBorrow that it was likely she would be borrowing to repay its loan by using her overdrawn current account(s) for repayments.*

*For the reasons set out above, I don't think BetterBorrow should have lent to Ms S based on the results of its checks.*

I then set out what BetterBorrow would need to do if I upheld the complaint.

Ms S did not respond to my provisional decision.

BetterBorrow replied saying it disagreed that an applicant's total credit limit needed to be considered and it uses a repayment value of 3.7% of outstanding balance as provided by one of the credit reference agencies. And if it took into account paying down the overdraft this could be estimated at around £106 per month - which falls within the disposable income amount it had already calculated without affecting the buffer it had already included.

### **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 unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

BetterBorrow challenged some of the findings in my provisional decision as set out above. However, I am not persuaded in the circumstances of this case that it is unfair or unreasonable to consider the cost to Ms S of sustainably repaying the total credit lines she had available to her at the time she applied for this loan.

I say this as there were already some signs of financial pressure with an overdraft of £2,877, which appears to be unauthorised borrowing as her limit was £0. And so in this case it was feasible Ms S could use that available credit in the short-term. And we apply a 5% repayment to allow us to understand the cost of the card(s) being repaid in a reasonable time frame. This means I remain of the view that I don't think Ms S had the disposable income available for the loan to be sustainable over three years.

I would add that even if I concluded only the cost of repaying the outstanding credit card balances should be taken into account, that would not change my overall conclusion here. This is because, as I said previously, giving this loan would have meant Ms S could have needed to spend 30% of her income on credit each month. This is a significant amount and such a level can be an indicator of future financial difficulties. BetterBorrow needed to consider and respond to such information, not just look at the pounds and pence affordability.

As well as indicating likely financial pressure, Ms S's reliance on an overdraft facility should have highlighted to BetterBorrow that it was most likely she would be borrowing to repay its loan by using her overdrawn current account(s) to make its repayments – something it was obliged to check was not the case. So, in the round, I think there were sufficient signs that BetterBorrow ought to have realised there was a risk this loan would not be sustainably affordable for Ms S.

It follows I find BetterBorrow was wrong to lend to Ms S.

## **Putting things right**

Ms S has had the benefit of the of the loan so it's fair that she should repay this money. But she had paid interest and charges on a loan that should not have been given to her and this is unfair.

So BetterBorrow should:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Ms S as payments towards the capital amount.
- If Ms S has paid more than the capital, refund any overpayments to her with 8% simple interest\* from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, BetterBorrow should agree an affordable repayment plan with Ms S, treating her fairly and with forbearance if appropriate.
- Remove any adverse information about the loan from Ms S's credit file once any outstanding capital balance has been repaid.

\*HM Revenue & Customs requires BetterBorrow to deduct tax from this interest. It should give Ms S a certificate showing how much tax it's deducted if she asks for one.

## **My final decision**

I am upholding Ms S's complaint. Chetwood Financial Limited, trading as BetterBorrow, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 25 July 2023.

Rebecca Connelley  
**Ombudsman**