

The complaint

Miss L complains that Evergreen Finance London Limited trading as MoneyBoat.co.uk (MoneyBoat) gave her a loan she couldn't afford.

What happened

Miss L was advanced one loan by MoneyBoat of £800 on 1 March 2022. Miss L was due to make six monthly repayments of £241.57. Miss L has had some problems repaying the loan and an outstanding balance remains due.

In response to Miss L's complaint, MoneyBoat explained why it wasn't going to uphold it. Miss L didn't agree, and instead referred the complaint to the Financial Ombudsman.

The complaint was reviewed by an adjudicator, and he upheld it. He thought the credit check results MoneyBoat received indicated that Miss L was already having financial difficulties because she had recently had a number of accounts enter arrears. So, he didn't think the loan was sustainable for Miss L.

MoneyBoat didn't agree with the outcome and it said that while it could see that Miss L was having some repayment difficulties, she had a good amount of disposable income to afford her loan repayments.

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.

MoneyBoat had to assess the lending to check if Miss L could afford to pay back the amount she had borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. MoneyBoat'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 L'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 MoneyBoat should have done more to establish that any lending was sustainable for Miss L. These factors include:

- Miss L 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 L 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 L 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 L. The adjudicator didn't think this applied to Miss L's complaint.

MoneyBoat was required to establish whether Miss L could *sustainably* repay the loan – 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 L was able to repay her 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 Miss L's complaint.

For this loan, Miss L declared she had a monthly income of £2,358. MoneyBoat says this figure was checked with a credit reference agency for its accuracy. Miss L declared her expenditure to be £800 per month. However, as part of the affordability check MoneyBoat said it did the following.

“On your loan applications we increased the monthly expenditure that you input, on the basis that your credit report highlighted different expenditure than you had disclosed, and/or to bring you in line with the average expenditure listed on the Common Financial Statement.”

As a result of these additional checks, MoneyBoat increased Miss L's monthly expenditure by £50, giving her total monthly outgoings of £850. This left £1,508 per month of disposable income to meet the repayments Miss L was committed to making. Based solely on the income and expenditure information the loan looked affordable.

MoneyBoat also carried out a credit check and a copy of the results have been provided to the Financial Ombudsman. It is entirely reasonable to consider these results to see what MoneyBoat knew about Miss L's other credit commitments (and credit history) at the time it advanced the loan.

MoneyBoat, just from the initial summary page knew Miss L's debts amounted to just over £10,000 spread across 13 active credit accounts. Miss L was also using 95% of her “*revolving credit / budget*” accounts – which means she was overall, close to her existing credit limits.

The adjudicator upheld this loan because in his view, there were already signs of financial difficulty – and having reviewed the search results I agree, and I've outlined what I've found below:

- Miss L had one loan called “Finance House” which was one month in arrears and had entered arrears in February 2022.

- Miss L had entered into an arrangement to pay with a Finance House loan in February 2022.
- Miss L's budget account was also showing one-month arrears from February 2022.
- A Finance House loan had been in arrears since December 2021, and by February 2022 – was now showing as being two months in arrears.
- Miss L had seven active credit cards of which one was over the credit limit and a further three were within £10 of the prescribed credit limits.

This data, which MoneyBoat had to hand clearly shows that Miss L's finances were worsening the month before she was granted this loan. It also shows she was already having problems managing and repaying her existing credit commitments. So, I do think there was a real risk that Miss L would then have problems repaying this loan – which is what ultimately happened.

Overall, taking account of what the credit check results showed, MoneyBoat ought to have concluded that there was enough evidence within the checks to indicate that Miss L was likely already having financial difficulties given the number of missed payments, an account subject to a payment arrangement and that she was over her credit limit with one credit card provider and within £10 of her limit on a further three cards. And in my view, further lending wasn't sustainable.

I am therefore upholding Miss L's complaint about the loan.

Putting things right

In deciding what redress MoneyBoat should fairly pay in this case I've thought about what might have happened had it not lent to Miss L at all, 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 L may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, she may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, she 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 she had done that, the information that would have been available to such a lender and how she would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. 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 L in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Miss L would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce MoneyBoat's liability in this case for what I'm satisfied it has done wrong and should put right.

MoneyBoat shouldn't have given Miss L this loan.

If MoneyBoat has sold the outstanding debt it should buy it back if it is able to do so and then take the following steps. If MoneyBoat isn't able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

- A. MoneyBoat should remove all interest, fees and charges from the balance of the loan, and treat any repayments made by Miss L as though they had been

repayments of the principal towards the loan. If this results in Miss L having made overpayments then MoneyBoat should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

- B. However, if there is still an outstanding balance then MoneyBoat should try to agree an affordable repayment plan with Miss L. But I would remind it of its obligation to treat Miss L fairly and with forbearance.
- C. MoneyBoat should remove any adverse information recorded on Miss L's credit file in relation to the loan.

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

My final decision

For the reasons I've explained above, I'm upholding Miss L's complaint.

Evergreen Finance London Limited trading as MoneyBoat.co.uk should put things right for Miss L as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 2 August 2023.

Robert Walker
Ombudsman