DRN-4273088

The complaint

Mr C complains that Chetwood Financial Limited was irresponsible to lend to him.

What happened

Mr C had three loans from Chetwood between February 2020 and March 2022 as follows:

Loan	Date	Amount	Term	Monthly Repayment	Due	Repaid
1	19 Feb 2020	£3,000	24m	£145.62	1 Feb 2022	19 Mar 2021
2	25 May 2021	£7,200	48m	£203.93	1 Jun 2025	17 Feb 2022
3	1 Mar 2022	£10,000	60m	£268.01	1 Mar 2027	In arrears - sold

Loans 1 and 2 were LiveLend loans, whilst Loan 3 was a BetterBorrow loan. Both are trading names of Chetwood Financial Limited.

Mr C says that, when he applied for the loans, he had a very poor credit score following previous financial difficulties. He says he was approved for credit that was considerably more than his annual salary and Chetwood should have realised he was struggling with repayments when he used loan 3 to repay loan 2.

Chetwood says Mr C declared his income and expenditure and it carried out checks with the credit reference agencies. It says it was confident that the lending was affordable.

Our investigator recommended the complaint should be upheld in part. He was satisfied that Chetwood had carried out proportionate checks for loan 1 and considered it was fairly lent. However, he found that Chetwood did not conduct proportionate checks for loans 2 and 3, and had it done so, it was likely to have found the repayments were unsustainable for Mr C. Our investigator recommended that any repayments over the amounts received for loans 2 and 3 should be refunded with 8% interest and any negative information about them should be removed from Mr C's credit file once repaid.

Chetwood responded to say that its calculations showed the affordability checks were all within acceptable thresholds for loans 2 and 3. It adds that the information it received did not indicate Mr C was in financial difficulties and it wasn't necessary to carry out further checks.

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.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr C's case, I have considered the following:

- Did Chetwood complete proportionate checks when assessing Mr C's loan applications to satisfy itself that he'd be able to repay the loans in a sustainable way?
    - If not, what would reasonable and proportionate checks have shown?
- Did Chetwood make a fair lending decision?
- Did Chetwood act unfairly or unreasonably in some other way?

<u>Loan 1</u>

When Mr C applied for this loan, I've seen evidence to show Chetwood asked him about his income and expenditure and also checked his credit file. Although I can't see that Mr C provided any information about his expenditure, the checks showed:

- Mr C's verified monthly income was £1,376;
- He was paying £134 per month towards his mortgage;
- Unsecured debt of £2,670 including three credit cards and two loans;
- An existing credit commitment of £101 per month;
- No adverse information on Mr C's credit file.

Including the loan, these checks showed Mr C had a round £1,000 per month for his other regular expenditure and was committed to spending less than 18% of his income on credit commitments (excluding the mortgage) each month.

I'm satisfied, therefore, that the available information did not indicate Chetwood needed to carry out further checks and that the lending was fair.

<u>Loan 2</u>

Chetwood carried out the same checks again for loan 2 and found:

- Mr C's verified monthly income was £1,521 – Chetwood initially said this hadn't been verified, but has now confirmed it was;
- He was paying £131 per month towards his mortgage;
- Unsecured debt of £5,945 including two credit cards, two loans, a mail order account and an overdraft;
- An existing credit commitment of £209 per month;
- Mr C declared expenditure of £300 excluding credit;
- No adverse information on Mr C's credit file.

However, this time I'm not satisfied Chetwood's checks went far enough. I say that because:

- The loan was for 48 months and Chetwood needed to be satisfied that the repayments were sustainable for that period;
- Mr C was borrowing again just two months after repaying loan 1;

- Including the new loan repayment, Mr C needed to commit around 27% of his income to credit payments – this rose to almost 36% with the cost of the mortgage;
- Mr C's unsecured debt, and his repayments, had more than doubled since loan 1;
- His declared expenditure had not been verified and seemed on the low side.

So, I've had a look at Mr C's bank statements as a reasonable proxy for what proportionate checks may have found:

- Mr C's income was actually £1,261 per month in the lead up to the loan;
- His regular expenditure, excluding food, was around £450 month;
- He'd taken out a £3,000 loan less than 2 weeks before this loan application, for which the repayments were £125 per month;

Based on the above, this left Mr C with less than £150 for food and unforeseen expenditure each month. It also meant he was committed to spending 43% of his income on credit, rising to 53% including his mortgage. I consider this was unsustainable for Mr C as the loan was for four years. I also note he borrowed a further £4,000 before he made his first repayment.

So, I find Chetwood did not make a fair lending decision for loan 2.

<u>Loan 3</u>

Once again, Chetwood carried out the same checks and found:

- Mr C's verified monthly income was £1,635;
- He was paying £131 per month towards his mortgage;
- Unsecured debt of £15,564 including six credit cards, three loans, two mail order accounts and an overdraft;
- An existing credit commitment of £562 per month;
- Monthly expenditure of £536 based on the Office of National Statistics (ONS) data;
- No adverse information on Mr C's credit file.

As with loan 2, I'm not satisfied Chetwood's checks went far enough because:

- The loan was for 60 months and Chetwood needed to be satisfied that the repayments were sustainable for that period;
- Mr C was borrowing again just two weeks after repaying loan 2;
- Including the new loan repayment, Mr C needed to commit around 51% of his income to credit payments – this rose to almost 60% with the cost of the mortgage;
- Mr C's unsecured debt had almost tripled since loan 2;
- His expenditure had not been verified.

Mr C's bank statements once again show that his income was much lower than he'd declared – at £1,270. Given that Chetwood's own calculations showed Mr C had just £130 remaining each month after he'd made the loan repayment, it follows that the loan was unaffordable using the correct income figure. I'm also satisfied that such a high credit commitment (two-thirds of Mr C's actual income) was not sustainable for five years.

In summary, I find Chetwood did not make fair lending decisions for loans 2 and 3, but I've seen no evidence that it acted unfairly or unreasonably in any other way.

My final decision

My decision is that I uphold this complaint in part. Chetwood Financial Limited should buy back loan 3 if it is able to do so and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below:

- Add up the total amount of money Mr C received as a result of having been given loans 2 and 3. The repayments Mr C made should be deducted from this amount.
    - If this results in Mr C having paid more than he received, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement);*
    - If any capital balance remains outstanding, then Chetwood should attempt to arrange an affordable and suitable payment plan with Mr C;
- Remove any adverse information recorded on Mr C's credit file in relation to the loans once any outstanding balance has been repaid.

* HM Revenue & Customs requires Chetwood to take off tax from this interest. Chetwood must give Mr C a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 14 September 2023.

Amanda Williams
Ombudsman