

The complaint

Miss S says Fairscore Ltd, trading as Updraft, irresponsibly lent to her.

What happened

Miss S took out a loan for £2,600 over 36 months from Updraft in August 2022. The monthly repayments were £98.76 and the total repayable was £3,623.40. She says she should not have been given this unaffordable loan. She didn't know the lender was supposed to check she could repay the loan without having to borrow more. Her bank statements and credit file showed she could not afford the loan.

Updraft says the checks it completed confirmed the loan was affordable.

Our investigator upheld Miss S's complaint. He said whilst Updraft's checks were proportionate the information it gathered showed the loan was not affordable for Miss S, so he found Updraft had not made a fair lending decision.

Updraft disagreed and asked for an ombudsman's review. It said Miss S could have borrowed less to settle just her highest cost debt. For her outgoings it used the higher of Miss S's declared expenses and national statistics. Finally, it said it did not feel it needed to review her other bank account(s) for a loan of this size.

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 of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss S's complaint. These two questions are:

1. Did Updraft complete reasonable and proportionate checks to satisfy itself that Miss S would be able to repay the loan without experiencing significant adverse consequences? If so, did it make fair lending decisions? If not, would those checks have shown that Miss S would've been able to do so?

2. Did Updraft act unfairly or unreasonably in some other way?

The rules and regulations in place required Updraft to carry out a reasonable and proportionate assessment of Miss S's ability to make the repayments under this agreement. This assessment is sometimes referred to as an affordability assessment or affordability check. The checks had to be borrower focused – so Updraft had to think about whether repaying the loan would cause significant adverse consequences for Miss S. In practice this meant that the business had to ensure that making the payments to the loan wouldn't cause Miss S undue difficulty or significant adverse consequences. In other words, it wasn't

enough for Updraft to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss S.

Checks also had to be proportionate to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a consumer's 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 higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss S's complaint.

Updraft has provided evidence to show that it asked for some information from Miss S before giving the loan. It asked for her monthly income, her employment status and her housing costs. It completed an income verification check using open banking data and it compared Miss S's declared outgoings to the relevant national statistics, using the higher value. It carried out a credit check to understand her credit history and existing credit commitments. It asked about the purpose of the loan which was debt consolidation. Based on the results of these checks Updraft thought it was fair to lend to Miss S as she had monthly disposable income of £149.31.

I think these checks were proportionate, but based on the information it gathered I don't think Updraft made a fair lending decision. I'll explain why. To note, Updraft was unable to share the open banking data it reviewed so I have used Miss S's bank statements for her primary account as a proxy.

When Miss S applied for this loan the credit check showed she had £18,028 of debt. And to repay this debt sustainably would have cost her around £620 each month – so around 38% of her income. I think this ought to have concerned Updraft. As the industry is aware, consumers spending a high proportion of their income on credit are at risk of falling into financial difficulties. So I don't think it was responsible to increase this further.

I anticipate Updraft would argue that its loan was for debt consolidation but I cannot see it took any steps to fully understand exactly which debts Miss S intended to settle. And the loan would only have allowed her to settle a small percentage of her debt. And Miss S would still have had access to the same credit limits even if she had cleared some of her debt. So I don't think Updraft had the assurances it needed that giving this loan would not cause Miss S financial harm. And it needed to check this, not just the pounds and pence affordability of the loan.

Also, if Updraft had used the open banking data it had to understand Miss S's actual

outgoings it would have seen that she had less disposable income than its assessment assumed. Between June and August 2022 Miss S was persistently reliant on her overdraft facility so it was most likely she would be repaying this new loan using that facility, which meant she would be borrowing to repay.

So, overall, I find there were sufficient indicators in the available information for Updraft to realise that giving Miss S this loan would likely cause financial harm.

It follows I find Updraft was wrong to give the loan to Miss S.

I haven't seen any evidence Updraft treated Miss S unfairly in some other way.

Putting things right

As I don't think Updraft should've arranged this loan, I don't think it's fair for Miss S to pay any interest or charges for the borrowing. However, she had the use of the funds she was lent, so I think it's fair she repays the capital.

So, Updraft should do the following:

- Refund all interest, fees and charges applied to the loan account.
- If reworking the account results in overpayments, add interest at 8% per year simple on any overpayments from the date they were paid by Miss S to the date of settlement*.
- If reworking the account results in there being an outstanding capital balance Updraft must agree an affordable repayment plan with Miss S.
- Remove any adverse information recorded on Miss S's credit file regarding the loan once any outstanding capital balance is repaid in full.

*HM Revenue & Customs requires Updraft to take off tax from this interest. It must give Miss S a certificate showing how much tax it's taken off if she asks for one.

My final decision

I am upholding Miss S's complaint. Fairscore Ltd, trading as Updraft, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 11 December 2023.

Rebecca Connelley
Ombudsman