

The complaint

Miss S complains Link Financial Outsourcing Limited, trading as Asset Link Capital (No.9) ("Asset Link") irresponsibly provided her with a private student loan.

What happened

Miss S was approved for the below loan by another lender. During the course of the loan Asset Link took over responsibility for that other lender's loan book and loan. For simplicity I will refer to Asset Link throughout, even when referring to decisions made initially by the other lender.

Date	Amount	In-study monthly repayment	Monthly repayment	APR	Amount payable
16/08/2016	£9,500	£75	£184.80	14.9%	£14,834.49

Miss S complains Asset Link did not complete reasonable and proportionate checks before approving the loan. She says she was struggling financially at the time of the application and further checks would have shown this. Miss S says that she had failed all her courses for which she had previously had student loans and that she went on to fail this course, too. Miss S says Asset Link acted irresponsibly by approving the loan. She asked that her guarantor be removed from their responsibility for the loan.

Asset Link agreed in part with Miss S's complaint. It agreed to refund some interest charged during periods when Miss S's repayments hadn't been affordable. It also agreed to remove her guarantor from the loan. However, it maintained that it had completed proportionate checks and correctly used predicted future income to assess whether the repayments would be affordable when it provided the loan and at most later points when higher repayments became due. It highlighted that the purpose of the loan was to help Miss S with her fees and living expenses whilst she was completing her studies. It maintained that it had otherwise lent responsibly.

Our investigator concluded that Asset Link hadn't acted fairly. They said that Asset Link didn't properly investigate Miss S's total debts at the time of her application. Miss S owed over £46,000 to creditors. Our investigator accepted that Miss S was reliant on payday loans and was in arrears with 'most' of her debts at the time. Our investigator thought if Asset Link had completed necessary and proportionate checks it would have realised the credit wasn't affordable for Miss S during the in-study period and that there was no evidence to suggest she'd be in a better financial position once she'd completed the course.

Our investigator upheld Miss S's complaint in full. While they considered that Asset Link shouldn't have lent to Miss S at all, they also reviewed what happened when Miss S had to commence her post-study payments and concluded that it wasn't affordable then, either.

Asset Link disagreed. It explained its business model further and said that Miss S hadn't contacted it to tell it about any financial difficulties. It reiterated that it had provided a refund

of interest for times when Miss S hadn't been able to affordably make her repayments and had applied forbearance in adjusting repayments and applying payment holidays.

As Asset Link didn't agree, the complaint has been passed to me to make a decision.

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 approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide this complaint.

Bearing in mind the rules, regulations, guidance and good industry practice I think there are three key questions for me to think about while looking at Miss S's complaint.

These are:

1. Did Asset Link complete reasonable and proportionate checks to satisfy itself Miss S would be able to repay the loan in a sustainable way?
 - a. If so, did it make a fair lending decision?
 - b. If not, would those checks have shown that Miss S would've been able to do so?
2. Did Asset Link complete a review of Miss S's circumstances once the in-study period had ended?
 - a. If so, did this show Miss S had secured a job in line with the salary expectations and repayments were likely affordable/sustainable?
 - b. If not, would those checks have shown Miss S had secured a job in line with the forecast salary and could meet the repayments in an affordable/sustainable way?
3. Did Asset Link act unreasonably in any other way?

Did Asset Link complete reasonable and proportionate checks to satisfy itself Miss S would be able to repay the loan in a sustainable way?

Asset Link is not a payday or short-term lender. It offers student loans to individuals who are funding their own further or higher education. It says its approach to lending meets the relevant regulatory guidelines. The main difference between Asset Link's lending and that typically provided by other lenders is that it completes its creditworthiness assessment based on the projected future earnings or income of the applicant.

Asset Link explains that its assessment model is based on the result of calculations which take into account the information provided by the consumer and independent data published by the Higher Education Statistics Agency (HESA), which provides average incomes achieved for graduates of a combination of universities and courses across the UK.

Asset Link needed to take reasonable steps to ensure it didn't lend irresponsibly to Miss S. The relevant rules, regulations and guidance at the time Asset Link lent to Miss S required it to carry out reasonable and proportionate checks. These checks needed to assess Miss S's ability to sustainably repay the loan over its intended terms without causing her financial difficulties.

There isn't a set list of checks a lender needed to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the consumer's circumstances.

It isn't sufficient for Asset Link to just complete proportionate checks though - it must also consider the information it obtained from these checks to make a fair lending decision. This

includes not lending to someone who's already struggling to repay what they owe; and ensuring repayments can be made sustainably - in other words, without having to borrow further or experiencing undue difficulty.

The purpose of Miss S's loan was to pay her tuition fees and to provide a contribution towards her living costs while she was studying.

Asset Link was entitled to rely on expected future income for Miss S when making its assessment, provided that this assessment was appropriate and there was an appropriate exercise of forbearance in relation to any initial payments. It assessed that Miss S would earn around £17,000 a year in her chosen field on completion of her studies.

Asset Link has provided a copy of the information it obtained when it agreed to lend to Miss S. I can see from this that Miss S had a poor history of managing credit. She also had existing debts of over £46,000. Our investigator thought that this should have prompted Asset Link to make more enquiries. And our investigator thought that if Asset Link had done further checks it would have realised the lending wasn't affordable for Miss S.

Asset Link disagreed. It submitted that Miss S's large amount of debt was, in fact, other student loans which would not be repayable until Miss S earned over a certain amount. That amount would have been significantly higher than Asset Link's assessment of her future earnings and so by the time she needed to make payments towards her regular student loans she'd have been in a much better financial position.

Miss S explained that she had a number of payday loans at the time. She provided details of these. I asked to see Miss S's student loans statement so I could see how much of her debt was accounted for by these. By the time Miss S applied for her loan with Asset Link, she owed £41,757 in student loans. This meant that she had around £4,700 on other debt, including the payday loans.

In her application Miss S was noted to be starting her second year as an undergraduate. However, Miss S explained that due to mental health issues she had commenced and dropped out of several other courses, never receiving the qualifications. This meant that Miss S had received the maximum amount of student loans funding at the end of her first year undergraduate studies. Indeed, Miss S didn't complete her undergraduate degree for the course she took the loan for, either. This was the reason she was seeking to privately finance her studies.

I think as Asset Link understood Miss S's large debt to be student loan related, it ought to have done more checks with Miss S about why she needed the money. Had it done so, it would have understood that Miss S couldn't access more funding because of her repeated drop-outs and that she was also not coping with her current course. I think this would have fundamentally affected any risk assessment Asset Link conducted in relation to the lending and in relation to Miss S's future earnings.

I'm satisfied that even if Asset Link ignored Miss S's existing student loans (because she wouldn't have become liable to commence repayments until she was earning at a certain level and because Asset Link's future assessments of affordability would take this into account) that it ought to have investigated the other debts Miss S had, too. While students will often not be able to live entirely within their means, using agreed overdrafts to supplement their living costs, it is unusual for a full-time student to use other forms of credit such as payday loans. In this case, Miss S's existing debt was significant, and she was in arrears with it, too.

Our investigator reviewed Miss S's essential expenditure at the time of the loan. They established that once Miss S's rent, bills and loan repayments were taken into account, Miss S would have not had sufficient money to meet her in-study loan repayment of £75 a month and to pay for food.

I think all of this information indicates that if Asset Link had completed necessary and proportionate checks, it would have understood that the loan was unaffordable for Miss S.

Did Asset Link complete a review of Miss S's circumstances once the in-study period had ended?

While I have indicated that I do not think Asset Link completed necessary and proportionate checks, I have also looked at Miss S's circumstances when she became due to commence her out of study repayments in October 2019.

Miss S earned around £1,150 a month. Her rent, other debt repayments and bills were around £925 a month, leaving her £225 to cover her food, out-of-study loan repayments of around £185 and any other expenses.

Based on this, I am satisfied that the out-of-study loan repayments were unaffordable for Miss S.

I understand that Asset Link provided Miss S with several periods of repayment holidays in 2020 and beyond, however I am not satisfied that either the in-study or out-of-study repayments were ever affordable for her.

3. Did Asset Link act unreasonably in any other way?

I have not seen any evidence to suggest Asset Link acted unfairly towards Miss S in any other way.

Putting things right

Where a business has made an error, this service would usually aim to put the consumer back in the position they would have been in had the error not occurred. However, in cases where a business has lent irresponsibly this isn't entirely possible, as the lending provided cannot be undone.

In this case, I think it's fair that Miss S should only have to repay the money she borrowed and had the use of. So, I think Asset Link should refund all of the interest and charges Miss S has paid on the loan.

Whilst I think it fair that Miss S's credit file is an accurate reflection of her financial history, I don't think it's fair that she should be disadvantaged by Asset Link's decision to lend to her irresponsibly. Therefore, under the circumstances, Asset Link should also remove any negative information recorded on Miss S's credit file as a result of this loan once the capital sum has been repaid.

In settlement, Asset Link should:

- Add up the total amount of money Miss S received as a result of having been given this loan. The repayments Miss S made should be deducted from this amount.
- If this results in Miss S having paid more than she received, then any overpayment 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 Asset Link should arrange an affordable and suitable payment plan with Miss S.
- Asset Link should also remove any negative information recorded on Miss S's credit file regarding this loan once the capital sum has been repaid.

*If Asset Link considers that it is required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss S how much it's taken off. It should also give Miss S a tax deduction certificate if she asks for one, so she can reclaim the tax if appropriate.

Miss S has also asked that her guarantor be removed from her loan. Asset Link has already agreed to this, and I think that is fair.

My final decision

I have decided that Link Financial Outsourcing Limited, trading as Asset Link Capital (No.9) lent to Miss S unfairly. I direct the business to pay compensation 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 22 December 2023.

Sally Allbeury
Ombudsman