DRN-4540610

The complaint

Miss B complains Inclusive Finance Limited, trading as Creditspring, lent to her irresponsibly.

What happened

Miss B entered into four credit agreements with Creditspring. They worked on a membership basis, so each month Miss B paid a fee which gave her access to a set number and value of credit draw downs. These had no interest charges applied to them.

In March 2021 Miss B agreed to pay a fee of £6 a month for 12 months, which entitled her to draw down two advances of £250 each during a 12-month minimum term. These advances would be repayable over four monthly instalments of around £62.50 (excluding the fee).

In January 2022 Miss B agreed to pay a fee of £8 a month for 12 months, which entitled her to draw down two advances of £250 each during a 12-month minimum term. These advances would be repayable over six monthly instalments of around £41.66 (excluding the fee).

In September 2022 Miss B agreed to pay a fee of £10 a month for 12 months, which entitled her to draw down two advances of £250 each during a 12-month minimum term. These advances would be repayable over six monthly instalments of around £83.33 (excluding the fee).

In March 2023 Miss B agreed to pay a fee of £12 a month for 12 months, which entitled her to draw down two advances of £500 each during a 12-month minimum term. These advances would be repayable over six monthly instalments of around £83.33 (excluding the fee).

Miss B says the credit was unaffordable and Creditspring ought to have done better checks. It would have seen her debt was out of control. It has also ignored her requests to set up an affordable repayment plan whilst chasing her for payment. This has detrimentally impacted her mental health.

Creditspring says it carried out appropriate credit and affordability checks that showed Miss B could afford the credit. And as she provided the income and expenditure figures the onus was on her to make sure they were accurate. It notes Miss B always made her repayments on time and prior to her complaint, she had not said that she was struggling to repay her debt. It said its specialist team would now contact Miss B to try to agree a payment plan. It offered to waive the remaining balance of the fees she owed under the fourth agreement, with no admission of liability. Unhappy with this response Miss B brought her complaint to this service.

Our investigator upheld Miss B's complaint in part. She found Creditspring was wrong to lend to Miss B under agreements two to four. She said the checks from January 2022 onwards were not proportionate and better checks would have shown Miss B was in a cycle of debt.

Creditspring did not respond to this assessment so the case was passed to me to make a final 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.

Creditspring needed to take reasonable steps to ensure that it didn't lend to Miss B irresponsibly. It should have completed reasonable and proportionate checks to satisfy itself that Miss B would be able to pay the loan in a sustainable way. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Agreement 1 (March 2021)

This was Miss B's first credit agreement with Creditspring. The amount she would be borrowing at any one time was relatively low (£250) and it was repayable over a relatively short period of time (four months). So a less detailed affordability assessment, with less verification might be reasonable and proportionate.

Creditspring says it evaluated the affordability of the borrowing using both self-reported information from Miss B and information from her credit file. It says Miss B reported her income as £2,770 a month and after her declared expenses, including her existing credit commitments, it calculated Miss B had £1,999 of income remaining after rent and credit commitments. Based on this, Creditspring concluded Miss B could afford the monthly instalments of around £68.50 to repay the advances and fee.

Creditspring also did a credit check, and it says it evaluated Miss B's credit report against various flags such as late repayments, CCJs and other major events. I've looked at the results of this check and there aren't any significant signs that Miss B was in financial difficulties at the time, or that she wasn't able to manage her existing debts.

Overall, there wasn't anything in the checks Creditspring did to suggest Miss B might have difficulties sustainably repaying the advances she was given under the first credit agreement. So I wouldn't have expected it to do any further checks or verification – particularly given the level of borrowing, term of repayment and lack of any previous lending relationship with Miss B.

So I find Creditspring's checks before agreeing to lend Miss B money under the first agreement were proportionate. And the information it gathered suggested Miss B could sustainably afford the monthly instalments.

Agreement 2 (January 2022)

Creditspring carried out the same checks as at the time of agreement 1. This time they showed Miss B would have £2,007 of income remaining after rent and repaying her existing credit commitments. But in this instance I am not satisfied the checks were proportionate. I say this as Miss B had returned to borrow again shortly after her first agreement ended. And

Miss B was borrowing a low amount relative to the £2,007 Creditspring thought she had of disposable income every month (prior to funding living costs). It could also see from its credit check that Miss B now had three accounts with the status *'on debt management or debt arrangement not settled'*. She had none at the time of the first agreement.

So I think at this stage Creditspring needed to do fuller checks to ensure its understanding of Miss B's financial position was wholly accurate. I would remind Creditspring its checks needed to be borrower-focused, and not just based on the likelihood of getting its money back. And I think the facts above should have prompted it to ask for more information. From its submission to this service it seems it had not taken any steps to verify Miss B's declared income or expenditure. It says the onus was on Miss B to provide accurate information but CONC 5.2A.16 (G) 3) states:

(3) For the purpose of considering the customer's income under CONC 5.2A.15R, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence.

In cases such as this we look at the complainant's bank statements from the months prior to the application for credit. I am not saying Creditspring had to do exactly this, but it is a way for me to reliably understand what better checks would most likely have shown the lender.

Had Creditspring carried out proportionate checks I think it would have realised Miss B's finances were already under pressure and it would not have lent to her. I say this as she was borrowing from at least six different high-cost credit providers at the time and was clearly struggling to manage her money. There was also evidence of informal borrowing. In these circumstances I don't think proportionate checks would have given Creditspring the assurances it needed that there was not a risk that lending to Miss B would not cause her financial harm.

It follows I find Creditspring was wrong to lend to Miss B at the time of Agreement 2.

Logically, I would only then find it fair for Creditspring to have gone on to lend to Miss B after this point had it again completed fuller checks – and learnt that her finances were no longer under pressure. It has not evidenced that it did this. And I can see from her bank statements prior to September 2022 and March 2023 that her financial position remained unstable and had in fact deteriorated further. By March 2023 she was persistent reliantly on her overdraft and had 22 active credit accounts.

It follows I find Creditspring was wrong to lend to Miss B at the time of Agreements 3 and 4.

Creditspring argues Miss B always paid on time but this does not change my conclusion as it does not know she did this without borrowing to repay - and evidence from her bank statements would suggest this was the case.

Did Creditspring treat Miss B unfairly in some other way?

Miss B says the lender ignored her request for a reduced payment plan. But I can see it responded to Miss B and first explained it could restructure the repayments if she shared her current outgoings and incomings. She did not want to do this saying she could not afford to restructure the debt and pay the full amount a later date.

The lender then offered a reduced monthly repayment but Miss B said this was still unaffordable. As Creditspring was by then issuing a final response to Miss B's complaint it said its specialist team would contact Miss B. So I don't agree that the lender ignored

Miss B's requests, though I can understand Miss B was frustrated that a resolution was not reached. Once Creditspring has followed my directions below to put things right, if Miss B still owes it money it must work with her sympathetically and positively to find a mutually acceptable repayment plan.

Putting things right

I've concluded that Creditspring was irresponsible to approve the second, third and fourth credit agreements for Miss B so she shouldn't have to pay any fees for the money she borrowed under those agreements.

So Creditspring should:

Cap the amount Miss B repaid/has to repay to the capital she borrowed, in other words £2,500; and

> - if Miss B has paid more than this Creditspring needs to refund these overpayments to her along with 8% simple interest per annum* from the date of payment to the date of settlement of this complaint. In this case Creditspring needs to remove any negative information about these agreements from Miss B's credit file; or
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> - if, after reworking the accounts, Miss B has not yet repaid the capital, then Creditspring needs to treat her fairly and with forbearance and due consideration regarding her outstanding capital balance. Once the capital has been repaid, then Creditspring should remove any negative information about agreements 2,3 and 4 from her credit file.

* HM Revenue & Customs requires Creditspring to take off tax from this interest. Creditspring must give Miss B a certificate showing how much tax it's taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I am upholding Miss B's complaint in part. Inclusive Finance Limited, trading as Creditspring, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 8 February 2024.

Rebecca Connelley
Ombudsman