

The complaint

Mr H has complained that Fairscore Ltd trading as Updraft, acted irresponsibly when it approved him for nine different loans over a 13-month period.

Background

Mr H applied for nine loans with Updraft between January 2022 and February 2023. He was approved for each loan, the majority of which were repaid early.

Mr H has explained that at the time of application he was extremely financially vulnerable and dependant on credit to fund his compulsive gambling addiction. He has said that each loan was used to gamble and the only reason he was able to repay the loans early was through winnings. Ultimately Mr H's reliance on credit spiralled out of control and he ended up in arrears on the remaining loans and defaulting others. He has said that if Updraft had properly queried why he kept applying for new loans and access to credit it would have realised what he was doing, that the lending was unsustainable, and refused to provide him with more credit.

Updraft has said that at the time of each application Mr H completed an income and expenditure form and it ran the necessary checks to ensure the lending was affordable. It says there was little evidence of gambling on his account statements and that while it did see evidence of Mr H regularly transferring money out of his main account into a secondary account, it believed this was linked to savings and didn't think it was necessary to query it with him. So, it didn't uphold his complaint.

Unhappy with Updraft's response Mr H brought his complaint to our service. One of our investigators looked into it already. He found that by December 2022 it should have been apparent to Updraft that Mr H was becoming overly reliant on credit and that the lending pattern was unusual. In addition, the loan taken in December 2022 was substantially larger than the previous loans were and so he thought Updraft should have done more detailed checks than it had previously done on the earlier, smaller loans. He also thought Updraft should have questioned the volume of 'savings' transfers to the secondary account as it seemed unlikely Mr H would require access to so much credit if he had sufficient savings available to him. If Updraft had done these things, he felt it would have realised Mr H was gambling in a harmful and compulsive way and wouldn't have provided him with the later loans. So, he upheld the complaint from December 2022 on that basis.

Mr H accepted the investigator's findings, but Updraft didn't. It said it was satisfied the checks it had completed were sufficient and asked for an ombudsman to review the complaint again and so it's been passed to me for consideration.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so I agree with the findings of our investigator and will be upholding Mr H's

complaint from the same loan in December 2022. For the sake of clarity, I've set out my findings below. As Mr H accepted the outcome reached by our investigator I am only considering whether or not the final two loans were lent irresponsibly as these are the only two left in dispute.

In its response to the investigator's view Updraft said that Mr H never disclosed he had a gambling problem and there was very little evidence of gambling on his main account when he applied for the loans with it. I accept this is the case and am unsurprised Mr H didn't mention he had a compulsive gambling problem as doing so would likely have stopped Updraft from approving the loan applications. But the lending rules set out by the regulator require businesses to run proportionate affordability checks and consider the specific circumstances of consumers prior to approving credit for them, in order to ensure that lenders don't provide credit irresponsibly. So, there were obligations on Updraft to ensure the loans were affordable and could be repaid sustainably. And this means that sometimes businesses need to ask more than just the basic questions in order to ensure that any decision to lend will not result in harm.

At the time he applied for the £9,100 loan in December 2022, Mr H had already been approved for six loans with Updraft. These were all repaid early, and all taken in very quick succession of each other. I can't see that Updraft queried why Mr H was repeatedly applying for loans, repaying them in less than 14 days, and then reapplying for new loans sometimes, within two or three days of having just repaid the previous loan. And I think this is something it should have asked Mr H about in order to ensure he wasn't becoming overly reliant on credit or experiencing financial harm.

In addition, Updraft has confirmed it reviewed Mr H's main bank account via open banking as part of its checks prior to approving the loans. It has confirmed that Mr H was regularly transferring money into another account, held with a different bank, that it didn't have sight of. These transfers had been labelled 'savings' and so Updraft said it didn't query them any further as savings wouldn't flag concerns for it. However, it doesn't seem logical to me that a person who is making daily 'savings' transfers to another account would simultaneously be requesting access to high-cost credit through a provider like Updraft. So I think it should have questioned this and asked Mr H to provide more information around these transfers. If it had done so, the statements on the secondary account would have shown that all of the money transferred over was used for gambling. None of it was savings.

In addition to the frequent transfers, it was also apparent that by December 2022 Mr H was reliant on his overdraft and his main account was overdrawn at the time he applied for the larger loan. Again, this calls doubt on Updraft's arguments that the loan was affordable, and Mr H had disposable income available to him. There was also evidence of credit repayments to other providers being made from Mr H's main account. This in and of itself isn't a reason to refuse an application for additional credit, but I've not seen anything to say that Updraft considered it or why Mr H, who it says was making regular savings deposits, would have so many open forms of credit elsewhere while simultaneously applying for multiple loans from Updraft.

Overall, I don't think Updraft adequately considered Mr H's specific circumstances by the time he applied for the loan in December 2022. I think it missed clear indicators that Mr H wasn't managing his finances properly and while the loan may have appeared affordable on the basic checks, the pattern of lending, reliance on credit with other providers, and frequent transfer of funds, should have resulted in Updraft running more thorough checks. If it had done that I think it would have realised Mr H was struggling with a compulsive gambling problem and wouldn't have provided him with the loan. So I am upholding his complaint from this point.

Mr H subsequently applied for another £1,000 loan in February 2023, I don't think he should have been approved for this loan either for the same reasons as those listed above. So I am upholding the final loan as well as the one from December 2022.

Putting things right

In order to put things right Fairscore Ltd trading as Updraft should:

- Calculate the total amount of money Mr H received as a result of having been given these two loans. The repayments Mr H made should be deducted from this amount.
 - a) If this results in Mr H having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
 - b) If any capital balance remains outstanding, then Updraft should attempt to arrange an affordable and suitable payment plan with Mr H.
- Remove any negative information recorded on Mr H's credit file relating to these two loans once they have been repaid.

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

My final decision

For the reasons set out above I'm partially upholding Mr H's complaint against Fairscore Ltd trading as Updraft.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 28 June 2024.

Karen Hanlon
Ombudsman