

Complaint

Miss R has complained about a guarantor loan UK Credit Limited ("UK Credit") provided to her. She says that the loan was unaffordable and should never have been provided to her.

Background

UK Credit provided Miss R with a guarantor loan for £9,500.00 in July 2019. This loan had an APR of 35.9% and a term of 48-months. This meant that the total amount of £16,703.52, which had interest, fees and charges of £7,203.52, was due to be repaid in 48 monthly instalments of £347.99.

One of our investigators reviewed what Miss R and UK Credit had told us. And she thought that UK Credit hadn't done anything wrong or treated Miss R unfairly. So she didn't recommend that Miss R's complaint be upheld.

Miss R disagreed and asked for an ombudsman to look at her complaint.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss R's complaint.

UK Credit needed to make sure that it didn't lend irresponsibly. In practice, what this means is UK Credit needed to carry out proportionate checks to be able to understand whether Miss R could afford to repay before providing her with this guarantor loan. The fact that UK Credit might have been able to call upon Miss R's guarantor for the payments, should Miss R have not made them, did not lessen or dilute what it was required to do.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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.

UK Credit provided Miss R with a loan for £9,500.00 in July 2019. This loan was due to be repaid in 48 instalments of £347.99. UK Credit says it agreed to Miss R's application after she provided details of her monthly income, which she provided payslips to support, and some information on her expenditure during a phone call.

It says it cross-checked this against information on a credit search it carried out as well as the information it asked Miss R to provide and all of this information showed Miss R could afford to make the repayments she was committing to. On the other hand, Miss R has said she wasn't in a good financial position at the time and shouldn't have been lent to.

I've carefully thought about what Miss R and UK Credit have said.

The first thing for me to say is that UK Credit has provided a record of the results of its credit searches. UK Credit searches appear to show that Miss R had some existing credit commitments and a default. However, Miss R was looking to consolidate her existing debts with the funds from this loan. Furthermore, during the phone call she had with UK Credit Miss R confirmed that what she would be left to repay was low and she'd repay this herself.

Having considered matters it's clear that UK Credit did obtain quite a bit of information from Miss R before lending to her. Equally, Miss R said that she was going to use the funds from this loan to consolidate almost all of her existing debts.

It may help for me to explain that at this stage all UK Credit could do was make a reasonable decision based on the information it had available. It won't have known whether Miss R would or wouldn't consolidate her balances – like she said that she would - all it could do was take reasonable steps to ensure the payments to its loan would be affordable and rely on assurances from Miss R that the balances, on the other credit, would be repaid with the funds from this loan.

Indeed, although this loan was expensive, there's no doubting that Miss R would have been able to afford the repayments and would have had a fixed monthly repayment where the amount owing would be fully repaid at the end of a defined term and an increased monthly disposable income, as long as she cleared her existing debts. So I'm satisfied that the proceeds of this loan could and should have been used to clear Miss R's existing balances.

Equally, as this was a first loan UK Credit was providing to Miss R, there wasn't a history of Miss R obtaining funds from UK Credit and then failing to consolidate debts elsewhere in the way she committed to either. So UK Credit was reasonably entitled to believe that Miss R would do what she said she would.

I accept that Miss R's actual circumstances may not have been fully reflected either in the information she provided, or the other information UK Credit obtained. And I'm sorry to hear that Miss R struggled to make her payments and she's referred to being in her overdraft. However, Miss R this was one of the commitments Miss R has said that she would use the funds from this loan to clear.

I should also explain that it's only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. Given the circumstances here and the information provided, I think that it is difficult for me to conclude that UK Credit ought to have realised that the monthly loan payments were unaffordable for Miss R, or that its actions here were not fair and reasonable.

I have also thought about what Miss R has said about being unhappy with the interest on her loan. However, the information regarding the cost of the loan and the total amount to be repaid, which is set in the background section of this final decision, is taken directly from the credit agreement Miss R signed. I accept it's possible that Miss R did not consider all of the information she was provided with at the time. But at the very least I would have expected her to review how much she would have to pay before signing her agreement.

As this is the case, I think that Miss R was notified of the costs of the agreement - including the interest – and most importantly she was given enough to consider whether this loan was right for her before she agreed to enter into it.

So overall I don't think that UK Credit treated Miss R unfairly or unreasonably when providing her with her guarantor loan. And I'm not upholding Miss R's complaint. I appreciate this will be very disappointing for Miss R. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 13 March 2024.

Jeshen Narayanan
Ombudsman