

Complaint

Miss M has complained about a personal loan Fairscore Ltd (trading as “Updraft”) which she says was unfairly lent to her. She says the loan was unaffordable as she was in considerable debt.

Background

Updraft provided Miss M with a loan for £3,000.00 in December 2020. This loan had an APR of 22.07% was due to be repaid in 35 monthly instalments of £110.09 followed by a final instalment of £123.66.

Miss M was also provided with loans of £4,500.00 in October 2021 and £7,500.00 in March 2022. When Updraft considered Miss M’s complaint it agreed that it shouldn’t have provided loans 2 and 3 to Miss M. And it placed Miss M in the position she would be in had she not had to pay any interest on those loans.

As this is what we’d direct a lender to do, if we were to uphold a complaint, we’ve not looked into the complaint about loans 2 and 3 and we’ve concentrated solely on loan 1. So all reference to loan from this point onwards is made in reference to loan 1.

One of our investigators reviewed what Miss M and Updraft had told us. He thought that Updraft hadn’t done anything wrong or treated Miss M unfairly when it provided her with her loan and so didn’t recommend that the complaint be upheld.

Miss M disagreed and asked for an ombudsman to review 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 M’s complaint.

Having carefully considered everything, I’m not upholding Miss M’s complaint. I’ll explain why in a little more detail.

Updraft needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice, what this means is that Updraft needed to carry out proportionate checks to be able to understand whether Miss M could afford to make her repayments before providing this loan.

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 provide loans to a customer irresponsibly.

Updraft says it approved Miss M's application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked this against information on a credit search it carried out which showed Miss M's existing commitments were relatively well maintained at the time.

In Updraft's view all of the information it gathered showed that Miss M could afford to make the repayments she was committing to. On the other hand, Miss M has said she was already in difficulty and couldn't afford this loan.

I've carefully thought about what Miss M and Updraft have said.

As Updraft asked Miss M about her income and expenditure and also carried out a credit check, it's clear that Updraft did obtain a reasonable amount of information before it decided to proceed with Miss M's application.

Having looked at the credit check, it's clear that Miss M had some existing debts. However, while I accept that Miss M might not agree with this, I don't think that these were excessive in comparison to her declared income. Furthermore, the information from the time shows that Miss M said she was going to use the funds from this loan to reduce what she owed elsewhere.

I don't know whether Miss M did go on to do this. But Updraft could only make a reasonable decision based on the information it had available at the time. It won't have known whether Miss M would still have the same balances on her other accounts – all it could do was take reasonable steps and rely on assurances from Miss M that the balances would be repaid with these funds. So I'm satisfied that the proceeds of this loan could and should have been used to clear some of Miss M's more expensive existing balances in the way that she committed to.

Unlike the later loans of Miss M which have been upheld, this was a first loan Updraft was providing. So there wasn't a history of Miss M obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. And, in these circumstances, Updraft was reasonably entitled to believe that Miss M would be left in a better position after being provided with this loan.

I accept that Miss M's actual circumstances may not have been fully reflected either in the information she provided, or the information Updraft obtained. I know she's provided statements showing overdraft debts which have had complaints upheld about by other providers. But it's only fair and reasonable for me to uphold a complaint in circumstances where a firm did something wrong.

Given the circumstances here, and the lack of obvious inconsistencies, I don't think that reasonable and proportionate checks would have extended into obtaining bank statements for multiple accounts. So I don't think Updraft would necessarily have decided against lending because of these accounts particularly as the funds from this loan could have been used to clear Miss M's overdraft at a cheaper rate.

For the sake of completeness, I'd also point out that if Miss M has already been compensated for the balances she's referred to, she's already been placed in the position

she would be in if she didn't have them. In these circumstances, I don't think it would now be fair and reasonable for me to take them into account and effectively double count them, in circumstances where Miss M has already been placed in the position she would be had they not existed in the first place.

As this is the case, I don't think that Updraft did anything wrong when providing this loan to Miss M - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

So overall and having considered everything, I'm satisfied that Updraft didn't treat Miss M unfairly or unreasonably when lending to her. And I'm not upholding Miss M's complaint. I appreciate this is likely to be very disappointing for Miss M – as she clearly feels strongly about this matter. 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 M's complaint.

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

Jeshen Narayanan
Ombudsman