

## **The complaint**

Mr B, through a representative, says UK Credit Limited lent to him irresponsibly.

## **What happened**

Mr B took out a guarantor loan from UK Credit in March 2018. It was for £1,000 over 18 months. The monthly repayment was £82.34 and the total repayable was £1,482.12. It was given on the basis that Mr B had a guarantor who would be responsible for the repayments if Mr B failed to make them.

Mr B says UK Credit failed to complete proportionate checks and should have done more before lending.

Our investigator recommended the complaint should be upheld. He said UK Credit did not make a fair lending decision based on the information it saw on Mr B's credit report.

UK Credit disagreed saying it had asked Mr B about his defaults and CCJ before lending and his explanations made it clear the defaults were not a reflection of Mr B's financial circumstances at the point of sale. And looking now at Mr B's bank statements from the months before he applied it is clear the loan was affordable for him as he had over £200 disposable income. It asked for an ombudsman's review.

## **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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The Financial Conduct Authority (FCA) was the regulator when UK Credit lent to Mr B. Its rules and guidance, set out in its Consumer Credit Sourcebook (CONC), obliged UK Credit to lend responsibly. Amongst other things, UK Credit was required to carry out a reasonable and proportionate assessment of whether Mr B could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So UK Credit had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr B. In other words, it wasn't enough for UK Credit to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr B.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (eg. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied

for. In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether UK Credit did what it needed to before agreeing to lend to Mr B, and have considered the following questions:

- did UK Credit complete reasonable and proportionate checks when assessing Mr B's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did UK Credit make a fair lending decision?
- did UK Credit act unfairly or unreasonably in some other way?

UK Credit asked for some information from Mr B before it approved the loan. It asked for details of his income and verified this using a third-party income verification tool. It used national statistics to estimate his living costs and asked about his contribution to these, and to the rent. It checked his credit file to understand his credit history and existing debts. It also asked about the purpose of the loan which was home improvements. It then spoke with Mr B to understand the background to the adverse data it could see on his credit file. From these checks combined UK Credit concluded that Mr B would have monthly disposable income of £164.70 after making the repayment and so the loan was affordable.

I don't think these checks were proportionate given the initial results of the credit check. This showed UK Credit that Mr B had three defaulted communications accounts totalling around £2,500 – one being very recent in January 2018 for over £700, as well as missed payments on one account and a CCJ from 2013. But I won't comment further on this, as even based on the information it did gather I don't think UK Credit made a fair lending decision.

UK Credit argues it spoke to Mr B about his defaults and his explanations were plausible so it did not need to do anything more. But I disagree with its analysis.

Looking at the most recent default, Mr B explained to UK Credit on a call that this came about after his phone and wallet were stolen at work. But the data shows he had been struggling to meet the contractual commitments on this account for around 19 months. In this time he had twice been up to six months in arrears – after bringing the account up-to-date eight months earlier, he then fell into serious arrears again leading to the January 2018 default. There were also missed payments in the last six months on another account. Given this payment history and the recency of the 2018 default, I do not find it was responsible to lend to Mr B at this time.

UK Credit argues that it has since reviewed Mr B's bank statements from the months prior to his application and they show he had enough disposable income. But this is not analysis it did at the point of sale. And, more crucially, it also commented that the statements show that

Mr B was in a borrowing cycle with one high-cost lender, using another high-cost revolving line of credit and had taken out a loan for £2,000 two days before this application. It says Mr B did not tell it this.

This means I am unsure about the defence it is presenting. I accept its point Mr B did not disclose these borrowings, but this does not change the lender's obligation to get the assurances it needed before lending that any credit would not cause financial harm. And here it seems to be saying that, retrospectively, it can see that the loan was affordable, but equally that there were indications that Mr B was under financial pressure.

However, I need not comment further on these points as given my finding above they do not change my overall conclusion.

I find UK Credit was wrong to lend to Mr B at this time.

I have not seen any evidence that UK Credit acted unfairly or unreasonably in some other way towards Mr B.

### **Putting things right**

It's reasonable for Mr B to have repaid the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been given to him. So he has lost out and UK Credit needs to put things right.

It should:

- Refund all interest, fees and charges applied to the loan account.
- As reworking Mr B's loan account will result in him having effectively made payments above the original capital borrowed, then UK Credit should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement\*.
- Remove any adverse information recorded on Mr B's credit file in relation to the loan.

\*HM Revenue & Customs requires UK Credit to deduct tax from this interest. UK Credit should give Mr B a certificate showing how much tax it's deducted, if he asks for one.

### **My final decision**

I am upholding Mr B's complaint. UK Credit Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 16 April 2024.

Rebecca Connelley  
**Ombudsman**