

The complaint

Mr O complains that Gain Credit trading as Drafty approved two lines of credit for him without carrying out satisfactory affordability checks. Mr O adds that the increase in the second facility's credit limit was '*reckless lending*'.

Mr O has an additional concern relating to his account having been '*cancelled*' by Drafty because of his complaint.

What happened

This was not a loan. Drafty offered a credit facility which commenced with a limit being determined and then the customer was able to draw down the amounts he or she required. The credit was unsecured and had no fixed duration.

Briefly, Mr O applied for the first credit facility of £1,500 in late November 2021. Drafty approved a credit facility of £500 and it remained at that limit. Mr O had declared, when the facility was approved, that his monthly income for his full time employment was £1,600 and his monthly expenditure was £675. Drafty says that it carried out credit checks.

Mr O paid that facility off in August 2022 and two months later applied to Drafty for another facility of £1,000. Mr O said he earned £1,980 each month (paid weekly) and his monthly expenditure was £575. A facility of £500 was approved and then that limit was increased in August 2023 to £790. There remains an outstanding balance on that second facility which in April 2024 we understood was just over £650.

The credit agreements set out the total cost of the credit based on some assumptions to illustrate the likely cost to Mr O. For each of the two agreements the terms were the same: on the assumption that Mr O drew down the full £500 on the first day and then repaid it (plus interest and charges) over 12 months in equal instalments then the total amount payable would have been just under £678. This would have equated to payments of about £57 a month (Clause 5 in the agreement).

The arrangement did include a 'Billing Cycle' which meant that a statement was produced ten days before Mr O's salary payment, and it gave the minimum payment required for that cycle. It had to be the higher of certain calculations which are in the agreement at clause 6 which I have not set out here.

A Continuous Payment Authority was used to take the minimum payments on or near Mr O's monthly salary date. Other ways of payment were made available.

Mr O complained to Drafty early in January 2024 and received a final response letter (FRL) in February 2024 in which it did not uphold the complaint.

One of our investigators looked at the complaint and thought that Drafty's two decisions to approve the credit facility initially was right. And in relation to that part where Drafty ought to monitor the account, she thought that the increase in the credit limit in August 2023 ought not to have been done. So, she considered that a fair outcome was for the facility to be interest free from August 2023

Drafty agreed with our investigator and said it would settle the complaint for Mr O in that way.

Mr O says that each of the facilities ought never to have been granted in the first place. So, the complaint was passed to me to decide.

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.

I have considered the law, any relevant regulatory rules and good industry practice at the time the credit was offered.

Before lending money to a consumer or approving a credit limit a lender should take proportionate steps to understand whether he or she will be able to repay what they are borrowing in a sustainable manner without it adversely impacting on their financial situation.

A lender should gather enough information for it to be able to make an informed decision on the lending. Although the guidance and rules themselves did not set out compulsory checks, they did list several things a lender could consider before agreeing to lend. The key element was that any checks needed to be proportionate and had to consider several different things, including how much was being lent and when the sum being borrowed was due to be repaid.

What is undisputed here

As Drafty has agreed with the investigator's view on the credit limit increase being wrong in August 2023, then I need not review that part of Mr O's complaint. It is no longer in dispute. The redress section of this decision reflects what I think Drafty needs to do to put things right for Mr O for that part.

Initial approval of the first credit facility.

I need to explain to Mr O that upon first approaching Drafty in November 2021 it would not be expected, and would not be proportionate, for Drafty to carry out a full and comprehensive financial review. Mr O was a new customer. And bearing in mind the credit limit granted (£500) and the monthly payments required to repay the facility within a reasonable period (£57), Drafty was entitled to rely on the information given to it. That information suggested that Mr O had enough disposable income to service a credit facility with a limit of £500.

Having looked at all that Mr O has given me and Drafty's information and submissions then I think that the initial credit facility approval was carried out after checks I would have considered proportionate. And the limit approved was likely to have appeared serviceable and able to be repaid within a reasonable time.

I do not uphold this part of Mr O's complaint.

Initial approval of the second credit facility.

My view is much the same for the second credit facility's approval in October 2022. I've taken into account the short time between Mr O paying off in full the first facility and then approaching Drafty for another a couple of months later.

I would have expected Drafty to have looked into that second application a little more if, for instance, the repayment history on the first credit facility had been poor. But it was not.

Drafty has explained how it checked Mr O's declared income in October 2022. I noted that Mr O's declared salary figure was £380 a month higher than when he first applied in 2021. But this verification process carried out by Drafty has been explained to me and I am satisfied it did what I would have expected it to have done.

Similarly with the credit check carried out by Drafty. I've seen the results for both facilities. For this second facility, the information Drafty obtained was that Mr O had no defaulted or delinquent accounts and had a total debt of £22,857 plus a mortgage. The total monthly repayments due on all his accounts (excluding the mortgage repayment figure) was £487.

Mr O had told Drafty that his monthly mortgage cost was £325, £75 each month for utilities, £75 for food, £75 for credit expenses and £25 for 'other'. But Drafty increased the expenditure figures having carried out the credit search and having applied statistical data. Still the £500 facility would have looked affordable.

And even if Mr O's income in October 2022 when he applied for the second credit facility had been the same as it had been when he applied for the first facility in November 2021 (£1,600 a month), still I'd consider that Drafty would have come to the same conclusion – that the facility of £500 was affordable.

Although the checks Drafty did were not as comprehensive as Mr O would have liked, that's not the benchmark on which I assess a lender's approach to an applicant's request for credit. Mr O says that Drafty ought to have obtained all his bank account statements when applying for the facilities. For Drafty to have gone further than it did would have been disproportionate. So, I have not reviewed the statements Mr O has sent to us.

I am aware that Mr O has sent to us his personal credit report, but I have not reviewed it. It is dated January 2024 and so post-dates the facility applications. And the relevant information when assessing an affordability complaint is what Drafty had obtained when it carried out its own credit research before lending. So those credit search results provided by Drafty are the relevant ones for the purposes of this decision.

Mr O has told us about a Credit Union payment which a relative paid for and Mr O says 'we reimburse for it'. Drafty would not have known of this arrangement and I would not have expected it to have known unless Mr O had informed it. There's no evidence of Mr O having told Drafty about this arrangement with a third party. So, it's not a factor I have considered.

I do not uphold Mr O's complaint for the approval of the second facility.

'cancellation' of the Drafty account

Mr O has complained that this account has been 'cancelled'. He's suggested that this was because he'd complained.

I asked our investigator to find out more about this from both Mr O and Drafty. Mr O has sent to us an example screenshot from late March 2024 indicating his second credit facility was 'suspended'.

Drafty has explained recently to me that Mr O's account is still active, has a balance due of £650.64 and the account's '*redraw facility has been suspended due to affordability concerns raised by him.*' This is a rational reaction for a lender when informed by its customer that it cannot afford the facility. And here, Drafty is applying forbearance by restricting Mr O's use of the account going forward. It would not want to provide Mr O with additional funds when he has said he cannot afford the facility he has already.

I consider this a fair and reasonable response by Drafty and I do not uphold this part of the complaint.

Credit limit increase

Drafty has accepted that it does need to put things right for Mr O in relation to the increased credit limit in August 2023. And for completeness I've outlined below what Drafty needs to do to put things right for Mr O.

Putting things right

The current state of the account is that there is an outstanding balance. So Drafty needs to do as follows:

- re-work Mr O's second credit facility balance so that all interest, fees, and charges applied to it from the date of the August 2023 credit limit increase onwards are removed.

AND

- if an outstanding balance remains on the second credit facility once these adjustments have been made Drafty should contact Mr O to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr O's credit file, it should backdate this to August 2023

OR

- if the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr O, along with 8% simple interest* on the overpayments from the date they were made (if they were) until the date of settlement.

If no outstanding balance remains after all adjustments have been made, then Drafty should remove any adverse information from Mr O's credit file from the point at which the credit limit was increased in August 2023.

*HM Revenue & Customs requires Drafty to take off tax from this interest. Drafty must give Mr O a certificate showing how much tax it has taken off if he asks for one.

My final decision

My final decision is that I uphold Mr O's complaint in part and I direct that Gain Credit LLC, trading as Drafty, should put things right for Mr O as outlined in my decision above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 9 May 2024.

Rachael Williams
Ombudsman