

The complaint

Mr J says Gain Credit LLC, trading as Lending Stream, provided him with a high-cost, short-term instalment loan that was unaffordable for him.

What happened

Lending Stream provided Mr J with a single loan in January 2020. The loan was for £600 and was due to be repaid over six-monthly instalments of between £184.30 and £203.14. The total amount to be repaid by the end of the loan term, including interest, was £1,200.

One of our investigators reviewed Mr J's complaint. But they didn't think Lending Stream had treated Mr J unfairly, and so they didn't recommend that the complaint be upheld.

Mr J didn't agree with the investigator's findings and so the complaint was passed to me to review afresh.

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.

The Financial Ombudsman Service has set out its general approach to complaints about irresponsible and unaffordable lending on its website. And having taken this into account along with everything else I need to consider, I don't think it would be fair or reasonable to uphold this complaint. I recognise this will be disappointing for Mr J. I hope my explanation helps him to understand why I've come to this conclusion.

Lending Stream needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr J could repay the loan repayments when they fell due and without the need to borrow further. These checks weren't prescriptive but could take into account a number of different things such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

So, in keeping with the information on the Financial Ombudsman Service's website, I think there are a number of overarching questions I need to consider when deciding a fair and reasonable outcome given the circumstances of this complaint:

1. Did Lending Stream carry out reasonable and proportionate checks to satisfy itself that Mr J was likely to have been able to repay the borrowing in a sustainable way?

i. If Lending Stream carried out such checks, did it lend to Mr J responsibly using the information it had?

Or

ii. If Lending Stream didn't carry out such checks, would the requisite checks have demonstrated that Mr J was unlikely to have been able to repay the borrowing in a sustainable way?

2. If relevant, did Mr J lose out as a result of Lending Stream's decision to lend to him?

Did Lending Stream carry out reasonable and proportionate checks?

The first thing I'd say is that this appears to have been Mr J's first loan with Lending Stream. As such, I don't think there was any established pattern in his borrowing needs, at least from Lending Stream, at that stage. I believe this puts the relationship, as it was in 2020, into important context.

Prior to agreeing to lend, Lending Stream searched Mr J's credit file. The credit search showed Mr J did not have any defaults or delinquent accounts at the time of the application. There were a number of active accounts, however the outstanding balance of those accounts was £116. The credit search also revealed that Mr J had an active mortgage account with an outstanding balance of £10,068. So, I don't think there was anything in the credit report that was concerning enough for Lending Stream to refuse to lend to Mr J.

I can also see that Mr J was asked to provide details of his income and his expenditure. Given the size of the lending in question, I don't think it was unreasonable for Lending Stream to rely on the information Mr J provided unless it had reason not to, which was the case on this occasion.

It looks like Mr J declared a monthly income of £11,750 and monthly expenditure of £1,055 during his application. I can see that Lending Stream reduced his declared monthly income to £10,692.50 and it increased his regular expenditure by £116 (that being the credit-related expenditure identified on his credit file). Based on these figures – and taking into account the repayments for the loan in question – Lending Stream concluded that Mr J had a disposable monthly income of £9,321.50 and was, therefore, in a position to afford the loan repayments over the full term.

On the face of it, it is difficult to reconcile such a significant amount of monthly disposable income – and seemingly unblemished credit file - and a loan application for only £600 – especially when it came at such a high cost. I acknowledge that people make all sorts of decisions for all sorts of reasons. And it isn't for me to impose my own view on the merits of applying for a loan like the one in question only to then conclude that Lending Stream should have carried out more detailed checks on that basis alone.

However, in this case, I think the declared monthly income was so unusual that it warranted further clarification, if for no other reason than to rule out the possibility that it was simply a mistake. I recognise that Lending Stream made a downward adjustment to Mr J's declared income. But this downward adjustment still left Mr J with a declared monthly disposable income of £10,692.50 which remains unusual and worthy of clarification.

With that being said, I think Lending Stream ought to have asked further questions to understand Mr J's income.

Would the requisite checks have demonstrated that Mr J was unlikely to have been able to repay the borrowing in a sustainable way?

It isn't possible to determine what such checks would have shown Lending Stream in practice as I don't know what checks it would have decided to carry out if it had its time again. As a result, what I'm considering here is the likelihood of reasonable and

proportionate checks showing Lending Stream that Mr J would have been able to sustainably repay the borrowing in question when there were signs that suggested otherwise. And for that reason, it is necessary to now consider information that Lending Stream hadn't considered at the time.

Given the size and duration of the lending in question, I don't think Lending Stream needed to conduct a full review of Mr J's wider financial circumstances. So, I don't think it needed to ask for or review Mr J's bank statements. But Lending Stream could have taken steps to clarify Mr J's monthly income by asking Mr J to redeclare it or by asking him for payslips, for example. I think this would have been reasonable and proportionate in the circumstances.

From the information Mr J has provided I can see, in the two months prior to the lending in question, he had an average net monthly income of around £2,095. And I'm satisfied that, if Lending Stream had asked Mr J to redeclare his income (or if it had obtained his payslips), this is what it would have discovered.

I don't think this level of income compared to Mr J's declared monthly expenditure (which I think it was entitled to rely on) - and the information it obtained from his credit file - would have given Lending Stream cause for concern about Mr J's ability to sustainably repay the lending in question.

With this in mind, if Lending Stream had made further checks, as I think they should have, then I think it's unlikely it would have decided the loan was unaffordable for Mr J. After all, it appears his disposable income was sufficient to cover the monthly repayments for the lending in question. And his credit file suggested he was maintaining his existing credit commitments.

I'm sorry to hear that Mr J was struggling financially and that he was in a cycle of debt at the time. But Lending Stream could only make its decision based on the information available to it at that time. And, at such an early stage in the lending relationship, I think Lending Stream was entitled to rely on what Mr J (subject to clarification of his income) and the credit report told it.

In summary, for the reasons I've explained, I think Lending Stream ought to have clarified Mr J's income before agreeing to lend. But, if it had, I don't think it would have cause to think the lending was unaffordable. And I think it reasonably relied on the information it had gathered about his other financial circumstances through Mr J's declared monthly expenditure and credit file. Taking all of this into account – and given the size and duration of the loan in question - I don't think it was unreasonable for it to lend, especially as there wasn't anything obvious in the information it had seen to suggest Mr J wouldn't be able to sustainably repay the loan.

Overall, and while I appreciate this will be disappointing for Mr J, I don't think Lending Stream acted unfairly when providing the loan.

My final decision

For the reasons given, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 26 June 2024.

Ross Phillips
Ombudsman

