

The complaint

Miss P complains that Fairscore Ltd trading as Updraft lent irresponsibly when it approved three loans within a short period of time.

What happened

In April 2022 Miss P applied for a loan of £10,000 with Updraft for debt consolidation purposes. In the application, Miss P said she was earning around £47,500 a year. Updraft applied accommodation costs of £547 a month and estimated living expenses of £619. Updraft also carried out a credit search and found Miss P had monthly repayments to her existing debts of £1,016 each month with a total outstanding balance of £24,897. Updraft calculated Miss P had around £372 in disposable income each month once her regular outgoings were met and approved a £10,000 loan with monthly repayments of £345.17.

Miss P applied for a second loan with Updraft in November 2022, this time for £3,000. Updraft took information from Miss P about her circumstances again and completed another credit search. Updraft calculated Miss P had around £132 in disposable income after her regular outgoings were paid and approved a loan of £3,000 with repayments of £77.23 a month.

A third application was made by Miss P in July 2023. Miss P applied to borrow £8,000 and provided information within the application about her circumstances at the time. Updraft carried out another credit search and applied its lending criteria. Updraft claims Miss P was left with around £400 each month as disposable income and approved a £8,000 loan with repayments of £211.51.

Last year, Miss P complained that Updraft lent irresponsibly when it approved her loan applications. Updraft didn't agree it had lent irresponsibly when Miss P applied for the first loan in April 2022 (loan 1). But Updraft upheld Miss P's complaint about the loans she took in November 2022 and July 2023 (loans 2 and 3). Updraft refunded all interest, fees and charges applied to both loan balances from inception and agreed to administer them on an interest free basis until the balances are repaid.

Miss P referred her complaint to this service and it was passed to an investigator. They weren't persuaded that Updraft lent responsibly when it approved loan 1 and noted it had already upheld Miss P's complaint about loans 2 and 3. The investigator noted that whilst Miss P's loan was applied for on the basis of debt consolidation, they weren't persuaded Updraft had taken any steps to understand her existing debts. The investigator wasn't persuaded that consolidating Miss P's debts to Updraft had been beneficial and added that the new loan only allowed her to refinance a small portion of her outstanding balances. In addition, the investigator noted Miss P had been actively borrowing from other lenders in the period before she approached Updraft and made a new application.

In addition to the refund Updraft had already agreed for loans 2 and 3, the investigator asked it to refund all interest, fees and charges to loan 1 obtained in April 2022. Updraft asked to appeal, so Miss P's complaint has been passed to me to make a decision.

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.

Before agreeing to lend, the rules say Updraft had to complete reasonable and proportionate checks to ensure Miss P could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I think the investigator made a reasonable point when they said Miss P already had a high level of unsecured debt at the point she applied for loan 1 in April 2022. Miss P was making payments of over £1,000 which made up a substantial portion of her income each month. When Updraft applied its lending criteria, it found Miss P had around £372 available as disposable income after her commitments were met. But the new loan payment was £345.17 meaning Miss P would've been left with around £27 each month after it was paid.

Updraft has made the point that the loan was intended for debt consolidation purposes. But I haven't seen anything that shows Updraft took the nature of Miss P's existing debts into account or considered whether consolidating them to a new loan would save her money each month. And I think there's a strong argument to be made that says Miss P would've potentially spent more each month by taking out the new loan with Updraft and consolidating existing debts to it. I also think the investigator made a reasonable point when they highlighted Miss P's borrowing in the months before she applied to Updraft as a sign she'd become reliant on credit.

In my view, the decision to approve Miss P's loan application based on the information Updraft had available wasn't reasonable. I agree with the investigator that Updraft lent irresponsibly when it approved loan 1 in April 2022. As a result, I'm going to tell Updraft to increase the settlement to include a refund of all interest, fees and charges applied to loan 1 from April 2022 to date. The loan should be administered on a 0% interest rate going forward until repaid.

As Updraft has already upheld Miss P's complaint about loans 2 and 3 and refunded interest in line with how I would've told it to settle, I don't need to make a finding on whether it lent responsibly or not. That part of Miss P's complaint has already been upheld and resolved.

In her complaint submissions, Miss P said she thought Updraft should pay 8% interest on the refunds it makes. But we would only award 8% interest if the refunds Updraft makes result in the outstanding balances being repaid in full. And, looking at the current outstanding balance of loan 1, it's unlikely a refund of the interest applied since April 2022 will result in the balance being repaid.

My final decision

My decision is that I uphold Miss P's complaint and direct Fairscore Ltd trading as Updraft to settle as follows:

Add up the total amount of money Miss P received because of having been given loan 1. Any interest, fees or charges should be removed. The repayments Miss P made should be deducted from this amount.

- a) If this results in Miss P having paid more than she received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).
- b) If any capital balance remains outstanding, then Updraft should attempt to arrange an affordable and suitable payment plan with Miss P and administer the remaining balance without applying further interest.

Remove any negative information recorded on Miss P's credit file relating to loan 1.

† HM Revenue & Customs requires Updraft to take off tax from this interest. Updraft must give Miss P a certificate showing how much tax it's taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 14 June 2024.

Marco Manente
Ombudsman