

Complaint

Mr B has complained about a personal loan Fairscore Ltd (trading as “Updraft”) provided to him. He says the loan was unaffordable and was therefore irresponsibly lent to him.

Background

Mr B also complained about a loan that had been taken out in 2022. We’ve already explained why we’re looking at the complaint about that loan separately and this complaint is solely looking at Mr B’s complaint about the loan Updraft provided to him in 2023.

Updraft provided Mr B with a loan for £15,000.00 in October 2023. This loan had an APR of 17.5% and a term of 60 months. This meant that the total amount to be repaid of £22,063.90, including interest, fees and charges of £7,063.90, was due to be repaid in 59 monthly instalments of £366.74 followed by a final instalment of £426.24.

One of our investigators reviewed Mr B’s complaint and she thought that Updraft ought to have realised that it shouldn’t have provided Mr B with his loan. So she thought that Mr B’s complaint should be upheld.

Updraft didn’t respond to our investigator’s assessment. So the case was passed to an ombudsman for a final decision as per the next step of our dispute resolution process.

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 Mr B’s complaint.

Having carefully considered everything I’ve decided to uphold Mr B’s complaint. I’ll explain why in a little more detail.

Updraft needed to make sure it didn’t lend irresponsibly. In practice, what this means is Updraft needed to carry out proportionate checks to be able to understand whether Mr B could afford to repay any credit it provided.

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 lend to a customer irresponsibly.

Updraft says it agreed to Mr B's application after he provided details of his monthly income. It says it cross-checked this against information on a credit search it carried out and also estimated Mr B's living costs. In its view, all of this information showed Mr B could afford to make the repayments he was committing to. On the other hand, Mr B has said he shouldn't have been lent to.

I've carefully thought about what Mr B and Updraft have said.

I'm concerned that Updraft's own checks showed that Mr B was significantly indebted with total debts approaching the amount of his entire annual income. Furthermore, Mr B's indebtedness had rapidly increased in the period leading up to this loan.

Updraft might argue that the purpose of this loan was debt consolidation. However, it's unclear to me how or what was going to be consolidated and more crucially how this loan was going to improve Mr B's outgoings going forward given the mismatch between the amount of this loan and what he already owed. I say this while particularly mindful that Mr B had already taken a loan with Updraft, in 2022, and yet returned for further borrowing a mere matter of months later.

I think that all of this should have set out alarm bells in relation to whether this loan was actually being taken for debt consolidation purposes and prompted Updraft into finding out more about Mr B's circumstances.

I'm satisfied that if Updraft had found out more about Mr B it would have seen that he was struggling to manage his existing commitments and why this was the case. So I think that proportionate checks would have shown Updraft that Mr B was already struggling and this meant that he was unlikely to be able to repay this loan without borrowing further or suffering significant adverse consequences.

As this is the case, I do think that Mr B's existing financial position meant that he was unlikely to be able to afford the repayments to this loan, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown Updraft that it shouldn't have provided this loan to Mr B.

As Updraft provided Mr B with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him. Mr B ended up paying and is still being expected to pay interest, fees and charges on a loan he shouldn't have been provided with.

So I'm satisfied that Mr B lost out because of what Updraft did wrong and that it should put things right.

Fair compensation – what Updraft needs to do to put things right for Mr B

Having thought about everything, Updraft should put things right for Mr B by:

- removing all interest, fees and charges applied to Mr B's loan from the outset. The payments Mr B made, whether to Updraft or any third-party debt purchaser, should be deducted from the new starting balance – the £15,000.00 originally lent. If Mr B paid more than £15,000.00 then Updraft should treat any extra as overpayments. And any overpayments should be refunded to Mr B;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr B to the date of settlement†

- if no outstanding balance remains after all adjustments have been made, Updraft should remove any adverse information it recorded about this loan from Mr B's credit file.
- if an outstanding balance remains after all adjustments have been made, Updraft should agree a suitable plan with Mr B for this amount to be repaid. Mr B is encouraged to get in touch with and cooperate with Updraft for this to be done.

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

My final decision

For the reasons I've explained, I'm upholding Mr B's complaint. Fairscore Ltd (trading as "Updraft") should put things right in the way I've directed it to do so above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 3 July 2024.

Jeshen Narayanan
Ombudsman