

The complaint

Mr M has complained about a loan Creation Consumer Finance Ltd provided to him.

He says he had significant credit card debt and an overdraft. Had Creation carried out enough checks it would have seen the loan was unaffordable.

What happened

Creation provided Mr M with an interest-free loan for £1,447 in June 2021. This loan was due to be repaid in 36 monthly instalments of £40.19. The purpose of the loan was to purchase goods from a high street retailer.

One of our investigators reviewed what Mr M and Creation had told us. And she didn't recommend that Mr M's complaint be upheld. Mr M disagreed and asked for an ombudsman to look at his complaint.

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.

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 M's complaint.

Having carefully considered everything provided, I've not been persuaded to uphold Mr M's complaint. I'll explain why in a little more detail.

Creation needed to make sure that it didn't lend irresponsibly. In practice, what this means is Creation needed to carry out proportionate checks to be able to understand whether Mr M could afford to make his repayments sustainably before providing this loan.

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.

Creation says it agreed to Mr M's application after he provided details of his monthly Income, his employment and residential status. It carried out a credit search to understand Mr M's existing debt level and credit history. Based on all the information it gathered it concluded Mr M could afford to make the repayments he was committing to.

On the other hand, Mr M has said his credit history and outstanding debt were not taken into

consideration. Making payments to this loan has, and continues to, put him in financial difficulty.

I've carefully thought about what Mr M and Creation have said.

The first thing for me to say is that Creation has told this service that it carried out a credit search which would have shown any late payments, defaults and county court judgements. Creation has said it showed that Mr M had virtually no existing debt (£36.15 on a revolving account and no loans of any kind).

I accept that Mr M says that his actual circumstances were not accurately reflected in the information Creation obtained. Mr M initially told us that he had closer to £10,000 of debt (more recently he sent an undated screenshot showing £6,202) and had missed payments in the two years prior. But I don't think that Creation was aware of this based on the results of its checks. And I can only fairly expect it respond to the results its checks returned. A lender will not see everything an applicant can see on their full file for a number of reasons – not all lenders report to all the credit reference agencies and there can be timing differences.

I would not expect Creation to have carried out the level of checks needed to possibly discover Mr M's finances were not as they seemed. I don't think that the amount being lent or the terms of the loan meant that a fuller financial review should have been completed in this instance – particularly given that the monthly repayment was just 2% of Mr M's net monthly income. And Mr M didn't, from Creation's credit searches at least, appear to be significantly indebted in any way.

As this is the case, I don't think that Creation did anything wrong when deciding to lend to Mr M - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable, although I do accept that Mr M doesn't agree.

So overall I don't think that Creation treated Mr M unfairly or unreasonably when providing him with this loan.

My final decision

I am not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 25 June 2024.

Rebecca Connelley
Ombudsman