DRN-4832276

The complaint

Miss B complains that Lifestyle Loans Ltd ("Lifestyle") lent to her in an irresponsible manner.

What happened

Miss B was given a single loan by Lifestyle. She borrowed £5,000 in January 2023 that she agreed to repay in 60 monthly instalments. Miss B tells us that she is finding it increasingly difficult to meet her contractual repayments.

Miss B's complaint has been assessed by one of our investigators. He thought that the checks Lifestyle had done before agreeing the loan had been proportionate. But he thought that the results of those checks should have led to Lifestyle deciding that the loan wasn't sustainably affordable for Miss B. So he explained what Lifestyle needed to do in order to put things right for Miss B.

Lifestyle didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. If Miss B accepts my decision it is legally binding on both parties.

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 rules and regulations at the time Lifestyle gave this loan to Miss B required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Lifestyle had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Miss B. In practice this meant that Lifestyle had to ensure that making the repayments wouldn't cause Miss B undue difficulty or adverse consequences. In other words, it wasn't enough for Lifestyle to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Miss B.

Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Lifestyle did what it needed to before agreeing to lend to Miss B.

Lifestyle gathered some information from Miss B before it agreed the loan. It asked her to provide access to her bank statements so it could check details of her income, and her normal expenditure. And it checked her credit file to see how much she was paying to other lenders, and how she had managed credit in the past.

Miss B was entering into a significant commitment with Lifestyle. She would need to make monthly repayments for a period of five years. So I think it was right that Lifestyle wanted to gather, and independently check, some detailed information about Miss B's financial circumstances before it agreed to lend to her. I think that the checks it did were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case.

Miss B had faced some limited problems managing her money in the past. Around three years earlier she had defaulted on an account, although it had been settled a few months later. And, more recently Miss B had met her contractual obligations on her credit accounts. But Miss B was making extensive use of credit. At the time of her application she had at least six credit and mail order accounts. The majority of those accounts were at, or very close to, their credit limits. And Miss B also had two other loans, and a hire purchase agreement, on which she was making monthly repayments.

In total Miss B's credit commitments accounted for a significant portion of her normal income, before considering any other regular expenditure that she needed to make. Lifestyle's own assessment was that Miss B would be spending more than 60% of her normal income to service monthly credit commitments. I don't think that was a sustainable position for her to be in.

I can see that Miss B initially asked Lifestyle for a loan of £2,000 to purchase some furniture, although she now tells us that she actually needed the money to support her day to day living costs. After discussions with Lifestyle she agreed to take a larger loan, and use some of the proceeds to repay other borrowing. But the interest rate being charged by Lifestyle was significantly higher than Miss B was likely to have been paying on her other borrowing. Whilst the new loan might have extended the period of those repayments, and so reduced the monthly cost, the long term debt Miss B was taking on was unlikely to improve her overall financial situation.

So I don't think it was reasonable for Lifestyle to conclude that Miss B would be able to sustainably afford this new loan. I think the results of its checks showed how heavily indebted she was. I think Lifestyle should have concluded that it was likely that Miss B was simply using new credit to repay existing debt and support her day to day living costs. So I don't think the loan should have been agreed, and Lifestyle needs to put things right.

Putting things right

Given that I have concluded this loan shouldn't have been agreed, I don't think it fair that Lifestyle should ask Miss B to pay any interest or charges on it. But I do think that, since Miss B has had the benefits of the principal she borrowed, the loan funds should be repaid. So, to put things right, Lifestyle should;

- Cap the amount Miss B needs to repay at the capital amount she borrowed, this being £5,000;

- Consider all payments Miss B has made as payments towards this capital amount;

    - If Miss B has repaid more than the capital she borrowed, which I don't think is the case here, then Lifestyle should refund these overpayments to her along with 8% simple interest per annum*; or
    - If Miss B hasn't yet repaid the capital then Lifestyle needs to treat Miss B fairly and with forbearance which may mean agreeing an affordable repayment plan with her or amending an existing one.

- Remove any adverse information about this loan from Miss B's credit file once it has been settled.

* HM Revenue & Customs requires Lifestyle to take off tax from this interest. Lifestyle must give Miss B a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Miss B's complaint and direct Lifestyle Loans Ltd to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 8 July 2024.
Paul Reilly
Ombudsman