The complaint

Miss N says Fairscore Ltd, trading as Updraft, irresponsibly lent to her.

What happened

Miss N took out a loan for £5,800 over 48 months from Updraft in November 2023. There was a £174 loan fee and the monthly repayments were £187.89. The total repayable was £8,992.40.

She says she shouldn't have been given the loan as it left her with no disposable income. She is unsure how she was even approved as most of her credit cards were at their limit and never coming down. She is now struggling with some of her monthly bills and payments are bouncing.

Updraft said its checks were proportionate and it was not wrong to provide the loan.

Our investigator upheld Miss N's complaint. She said it did not leave Miss N with enough disposable income.

Updraft disagreed. It said, in summary, the point of the loan was to consolidate other finance so the actual amount left over if Miss N used the loan for the purpose requested she should have been better off. However, it conducted its checks with a prudent view to ensure payments were still affordable if she did not do this.

Our investigator explained why this defence did not change his view. As Updraft did not respond, the complaint was passed to me to make a final 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss N's complaint.

These two questions are:

1. Did Updraft complete reasonable and proportionate checks to satisfy itself that Miss N would be able to repay the loan without experiencing significant adverse consequences? If so, did it make fair lending decisions? If not, would those checks have shown that Miss N would've been able to do so?
2. Did Updraft act unfairly or unreasonably in some other way?

The rules and regulations in place required Updraft to carry out a reasonable and proportionate assessment of Miss N's ability to make the repayments under this agreement.

This assessment is sometimes referred to as an affordability assessment or affordability check. The checks had to be borrower focused – so Updraft had to think about whether repaying the loan would cause significant adverse consequences for Miss N. In practice this meant that the business had to ensure that making the payments to the loan wouldn't cause Miss N undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Updraft to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss N. 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. Even for the same customer, a proportionate check could look different for different applications.

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

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss N's complaint.

Updraft has provided evidence to show that it asked for some information from Miss N before giving the loan. It asked for her monthly income, her employment status and her residential status. It completed an income verification check with a third-party and used national statistics to make an assumption about her living costs. It carried out a credit check to understand her credit history and her existing credit commitments. It asked about the purpose of the loan which was to consolidate multiple loans. Based on the results of these checks Updraft thought it was fair to lend to Miss N as she would have monthly disposable income of £51.09.

I think these checks were proportionate but I don't think Updraft made a fair lending decision based on the information it gathered. Lending on the basis that Miss N could have disposable income of just £51.09 a month over a four-year period was not responsible. Updraft argues the loan was for debt consolidation so this would most likely be higher. But Miss N would only have been able to settle around a third of her debt and I cannot see Updraft took any steps to understand which debts she intended to repay. So it did not know with any certainty how much she would need to spend each month on credit going forward, and whether it would be a concerning proportion of her income.

It has also said it conducted its checks with a prudent view to ensure payments were still affordable if Miss N did not consolidate her debts. But I cannot agree that the results of its affordability assessment show this. The amount of £51.09 a month is not sufficient to cover unexpected and/or seasonal expenses over a 48-month term.

It follows I find Updraft was wrong to lend to Miss N. I haven't seen any evidence it acted unfairly towards her in some other way.

Putting things right

I think it's fair and reasonable for Miss N to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her. Updraft must put this right.

It should:

- Refund all interest and charges Miss N paid on her loan and remove all future interest and charges.
- If reworking Miss N's loan account in this way results in her having effectively made payments above the original capital borrowed, then Updraft should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Miss N's loan account results in there being an outstanding capital balance Updraft must try to agree an affordable payment plan with Miss N.
- Remove any adverse information recorded on Miss N's credit file in relation to the loan once any outstanding capital balance has been repaid.

*HM Revenue & Customs requires Updraft to deduct tax from this interest. Updraft should give Miss N a certificate showing how much tax it's deducted, if she asks for one. If it intends to apply the refund to reduce an outstanding balance it must do so after deducting the tax.

My final decision

I am upholding Miss N's complaint. Fairscore Ltd, trading as Updraft, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 10 July 2024.

Rebecca Connelley
Ombudsman