

The complaint

Mr H complains that Chetwood Financial Limited trading as BetterBorrow ("BB") lent to him irresponsibly.

What happened

In November 2021 Mr H applied for a loan with BB. The loan was approved, and Mr H was advanced a loan for £12,000 repayable over 84 months.

Mr H complained that BB had lent to him irresponsibly. He said the loan wasn't affordable and that his outgoings exceeded his income.

BB didn't uphold the complaint. It said it had carried out proportionate checks before lending to Mr H and that the loan was affordable.

Mr H brought his complaint to this service.

Our investigator upheld the complaint. He said he didn't think BB had carried out proportionate checks and said that if proportionate checks had been carried out, these would have shown that Mr H wasn't able to sustainably repay the loan.

BB didn't agree. It said that although Mr H had obtained another loan on the same date that he took out the BB loan, this information wouldn't have been available to them at the time of application. It said it believed that Mr H's income and outgoings (based on the bank statements and the information it had used) showed that the loan was affordable.

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.

Our approach to complaints about unaffordable and irresponsible lending including the relevant rules, guidance and good industry practice is set out on our website.

BB needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice, this means that it should have carried out proportionate checks to make sure that Mr H could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of things, such as how much was being lent, the repayment amount and the customer's income and expenditure.

There's no list of specific checks that a lender has to carry out. But the checks must be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of repayments, the total cost of the credit and what the lender knows about the customer.

I've looked at the checks which were completed by BB to decide whether these were reasonable and proportionate.

Mr H declared net monthly income of £2,570 when he applied for the loan. BB verified this figure using data available from the credit reference agencies.

Mr H declared housing costs of £500 per month. BB used ONS data to check this and calculated that Mr H's housing costs were £567 per month. It used this figure in its assessment.

Mr H declared living costs of £100 per month. BB used ONS data to check this and calculated a figure of £555.

BB obtained information from the credit reference agencies which showed that Mr H had existing unsecured credit commitments of around £32,164 in total, with repayments of around £808 per month. It calculated that, taking into account his housing costs, living costs and credit commitments (including the new BB loan at £235 per month). Mr H had disposable income of £405 per month.

I've thought about whether these checks were proportionate. Less detailed checks can be proportionate where a customer's financial position is stable and where the borrowing is insignificant given the consumers overall financial circumstances. In this case, BB was providing a large loan to Mr H with a long term of 7 years. Looking at Mr H's overall financial circumstances, including Mr H's existing level of unsecured debt, the BB loan was a significant commitment. In these circumstances, I think BB should have carried out further checks to ensure that the loan was affordable for Mr H.

I've gone on to consider what BB might have discovered had proportionate checks been carried out.

I've reviewed Mr H's bank statements for the period prior to him taking out the loan. These show that Mr H's outgoings were much higher than the figures calculated by BB and used in its assessment. BB calculated Mr H's outgoings at around £1,930 per month (excluding the repayment for the new loan). Mr H's bank statements show that his outgoings were much higher than this, with his average outgoings for the three-month period leading up to the loan being around £5000. Taking into consideration Mr H's net monthly income of £2,570, it's clear from the bank statements that Mr H's outgoings exceeded his income, and that he wasn't in a position to sustainably repay the BB loan without relying on further credit. In the circumstances, I don't think the loan was affordable for Mr H.

I've reviewed the comments that BB has made regarding Mr H's bank statements. It has queried whether certain sums transferred by Mr H to a third-party account and described as "house", "mortgage" and "rent" are genuine housing costs. I've thought about this but I haven't seen any evidence to suggest that these aren't genuine housing costs. I appreciate that Mr H's actual housing costs were much more than the £500 per month he declared at the point of application. However, further checks would've alerted BB to these larger costs, and it would've seen that the loan wasn't affordable for Mr H.

For the reasons I've explained above, I don't think the loan was affordable for Mr H.

Putting things right

Mr H has had the benefit of the loan, so I think it's fair that he repays the amount that he borrowed. However, because the lending was irresponsible and Mr H has paid extra for lending which should not have been provided, BB should refund all interest and charges.

To put things right, BB must:

Add up the total amount of money Mr H received as a result of being given the loan. Deduct all repayments made by Mr H from this amount.

(a)if this results in Mr H having paid more than he received, any overpayments should be refunded along with 8% simple interest calculated from the date the overpayments were made to the date of settlement *

(b)if any capital balance remains outstanding, BB should arrange an affordable payment plan with Mr H

Remove any negative information recorded on Mr H's credit file in relation to the loan.

*HMRC require BB to take off tax from the interest. It must give Mr H a certificate showing how much tax has been taken off if he asks for this.

My final decision

My final decision is that I uphold the complaint. Chetwood Financial Limited trading as BetterBorrow must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 16 August 2024.

Emma Davy
Ombudsman