DRN-4933479

The complaint

Miss G complains that Fairscore Ltd lent to her irresponsibly.

What happened

Miss G took out three loans with Fairscore Ltd as follows:

In May 2021 Miss G took out a loan for £7,000 repayable over 36 months at £269.46 per month.

In October 2022 Miss G took out a loan for £5000 repayable over 60 months at £136.96 per month.

In July 2023 Miss G took out a loan for £8000 repayable over 59 months at £239.05 per month.

Miss G raised a complaint with Fairscore. She said that all three loans were unaffordable.

Fairscore partially upheld Miss G's complaint. It said it had carried out proportionate checks at the time of each loan application and had found the lending to be affordable for Miss G. In relation to Loan 3 (July 2023) Fairscore said it recognised that additional questions should've been raised because of the increase in borrowing between Loans 2 and 3. It refunded interest on Loan 3 of £1338.47 and amended Miss G's credit file.

Miss G remained unhappy and brought her complaint to this service. She says that Loans 1 and 2 were unaffordable.

Our investigator upheld the complaint. They said that although they were satisfied that Fairscore had completed proportionate checks for Loans 1 and 2, they didn't think the lending decisions were fair.

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 towards complaints about unaffordable and irresponsible lending including the relevant rules, guidance and good industry practice are set out on our website.

Fairscore needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means it should've carried out proportionate checks to make sure Miss G could afford to repay what she was being lent in a sustainable manner.

These checks could take into account a number of things

These checks could take into account a number of things, such a show much was being lent, the repayment amount and the customers income and expenditure.

Loan 1

Fairscore used the information provided by Miss G in her application and obtained further information from credit reference agencies. Miss G declared monthly income of £3,010. Fairscore used a credit reference agency to verify Miss G's income and found it to be correct. Fairscore also looked at Miss G's existing credit commitments and found that she had around £33,447 unsecured debt. The costs of servicing this existing debt were £992 per month. Miss G's general expenditure was calculated at around £556 per month.

Based on what I've seen, I think the checks carried out prior to Loan 1 were proportionate.

I've gone on to consider whether the lending decision was fair, or, in other words, whether the lending was sustainably affordable for Miss G.

The information gathered by Fairscore showed that Miss G's overall debt exceeded her net income. In these circumstances, a further £7000 of debt was going to increase Miss G's level of debt to a figure which, taken in consideration with the other financial information, wasn't likely to be sustainably affordable.

I'm therefore of the view that Fairscore didn't make a fair lending decision when it advanced Loan 1.

Loan 2

Miss G's income was verified at £3201 per month. Her existing credit commitments were found to be £30,398. The costs of servicing this debt were £1330 per month. Miss G's general expenditure was calculated at around £560.02 per month. Miss G also had housing costs of £1111. This left her with disposable income of around £199 per month (before factoring in Loan 2).

Based on what I've seen I think the checks carried out prior to Loan 2 were proportionate.

I've gone on to consider whether the lending decision was fair.

Fairscore would've been aware that Miss G was part way through the term of Loan 1 when Loan 2 was applied for. And although her existing debt had reduced from £33,447 to £30,398, she still had a very high level of debt in relation to her income, and a further £5000 in lending would've taken her back up to a level of total debt which exceeded her net income. Miss G had disposable income of around £199 per month. The repayments on Loan 2 were £136.96 per month. This would've left Miss G with around £60 per month disposable income, which wouldn't have provided any barrier in the event that she had unplanned or emergency expenses.

In the circumstances, I don't think Fairscore made a fair lending decision on Loan 2.

I appreciate that Fairscore has said that Miss G intended to use the loans to consolidate her existing debt. It has said that on this basis, the loans would've saved Miss G money and improved her monthly disposable income. I haven't seen any evidence that Miss G consolidated any debt with either Loan 1 or Loan 2. It may be the case that Miss G told Fairscore that she was going to consolidate debt, but Fairscore should still have taken account of all of Miss G's existing debt at the time of the applications.

Putting things right

To put things right, Fairscore must (in relation to both Loans 1 and 2):

1.Calculate the total amount of money Miss G received as a result of being given the loan. The repayments made by Miss G should be deducted from this amount.

2.If this results in Miss G having paid more than she received, any overpayments should be refunded along with 8% simple interest calculated from the date the overpayments were made to the date of settlement.

3.If any capital balance remains outstanding, Fairscore must arrange an affordable payment plan with Miss G

HMRC requires Fairscore to deduct tax from the interest. Fairscore must give Miss G a certificate showing how much tax has been deducted if she asks for one.

My final decision

My final decision is that I uphold the complaint. Fairscore Ltd must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 4 September 2024.

Emma Davy
Ombudsman