DRN-5101061

The complaint

Ms G says Chetwood Financial Limited, trading as BetterBorrow, irresponsibly lent to her.

What happened

Ms G took out a 48-month instalment loan for £12,000 in May 2021. The monthly repayments were £314.71 and the total repayable was £15,105.99.

Ms G does not believe that BetterBorrow carried out the relevant checks that were needed before approving the loan. It was unaffordable for her, she had a significant amount of existing borrowing, including several loans and credit cards. She says the checks were not proportionate given her debt-to-income ratio. A more in-depth view of her finances, by looking at her bank statements for three months prior, was required. It was clear she was not managing her finances well with missed payments and credit cards at their limits.

Our investigator did not uphold Ms G's complaint. She said BetterBorrow's proportionate checks did not show the loan would be unaffordable.

Ms G disagreed and asked for an ombudsman's review. She said:

- If BetterBorrow had performed more detailed checks or understood the nature of the joint account, it would have seen that the income figures were not solely attributable to her. The joint account contained income from another individual, which significantly inflated the figures used to assess affordability. Accepting she did not explicitly state that the account was joint, she did provide full details about her financial situation. She believes BetterBorrow could have reasonably questioned the reliability of using the income verification data to assess her financial capacity.

- But even with the correct income data, BetterBorrow did not adequately assess her overall financial situation and ability to repay the loan. She had existing financial commitments which were not fully taken into consideration. She was already managing multiple debts, and this should have been factored into the affordability assessment. Had BetterBorrow conducted a more thorough review of her financial obligations, it would have seen that taking on additional credit would likely have led to financial strain. Since the loan was issued, she has struggled to meet her repayment obligations, which has caused significant hardship.

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.

I want to assure Ms G I have considered all of the points she raised carefully. In keeping with our role as an informal dispute resolution service – and as our rules allow – I will focus here on the issues I find to be material to the outcome of her complaint.

We've set out our general approach to complaints about unaffordable/irresponsible lending -

including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did BetterBorrow complete reasonable and proportionate checks to satisfy itself that Ms G would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Ms G would have been able to do so?
- If so, did BetterBorrow make a fair lending decision?

The rules and regulations in place required BetterBorrow to carry out a reasonable and proportionate assessment of Ms G's ability to make the repayments under the agreement. This assessment is sometimes referred to as an affordability assessment or affordability check. The checks had to be borrower-focused – so BetterBorrow had to think about whether repaying the loan would be sustainable.

In practice this meant that BetterBorrow had to ensure that making the repayments on the loan wouldn't cause Ms G undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for BetterBorrow to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Ms G. 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.

I think that such a 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 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 have reviewed the checks that BetterBorrow carried out prior to lending to Ms G. It asked about her income and employment status. It checked her declared income using two external sources. It asked about her residential status and housing cost. It asked about her living costs and used national statistics to validate what she declared. It calculated her monthly credit commitments from its credit check. From these checks combined, it concluded Ms G could afford this loan and would be left with £2,680 disposable income.

I think these checks were proportionate. I say this based on the monthly repayments relative to the high declared income that was verified, as well as the stage in the lending relationship. And I think BetterBorrow made a fair lending decision based on the information it gathered. I'll explain why.

Ms G declared a net monthly income of £5,456. She says this must have been a typo as her actual income was half this. But BetterBorrow verified her income using current account turnover for the previous six months with two independent sources and the results supported what she had declared. Ms G has explained this would be because it was a joint account so two incomes were paid into it. But as the results matched what she had declared as her sole income I can see no reason for BetterBorrow to have known this, or to carry out further checks.

BetterBorrow understood Ms G's monthly living and housing costs were £1,050 and her existing credit commitments were £1,398. So it was reasonable to conclude she had the disposable income to afford this loan.

I have thought carefully about Ms G's argument that her debt-to-income ratio and credit history should have triggered a review of her bank statements. I can see from the credit checks BetterBorrow knew she had £36,279 of unsecured debt. But as it believed her annual income to be in the region of £90,000 it had a very different view of her debt-to-income ratio. However for the reason set out above with regards the income checks, I cannot find this to be a failing on the lender's part.

The credit check showed she had a range of credit products but they appeared to be well managed. Ms G referenced missed payments from 2017 and 2018 but I would not find this to be a reason to decline this application in 2021. Likewise, she had been over limit on one card in the last 12 months but I don't see that as a reason not to lend. Her report showed were no recent arrears, no payday loans, no using credit for cash advances and no use of an overdraft. Her credit utilisation had been stable at 80% for the last 12 months. She hadn't recently opened multiple lines of credit – or tried to - she had just one search on her file in the last 12 months. So whilst Ms G was using multiple lines of credit, this did appear to be sustainably affordable for her.

In the round I do not think BetterBorrow was wrong to lend to Ms G. I know Ms G will be disappointed by this conclusion. Essentially, her provision of the wrong income – that BetterBorrow was legitimately able to verify has impacted the lending decision. But given the checks BetterBorrow undertook prior to approving her application, I cannot find it at fault in this case. There is no obligation on a lender to review bank statements, and given the high level of disposable income that its proportionate checks showed alongside the status of her current debt and debt-to-income ratio (as the lender understood it) there was no reason for it do more.

I am sorry to hear that Ms G went on to suffer financial hardship. I hope she now has the support she needs. StepChange (tel: 0800 138 111) can provide free assistance with debt management if not.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think BetterBorrow lent irresponsibly to Ms G or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

I am not upholding Ms G's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms G to accept or reject my decision before 6 December 2024.

Rebecca Connelley
Ombudsman