DRN-5140661

The complaint

Mr Y complains that Gain Credit LLC trading as Lending Stream was irresponsible in its lending to him. He wants a refund of all interest and charges paid on the lending along with statutory interest and for any adverse information to be removed from his credit file.

Mr Y is represented by a third party but for ease of reference I have referred to Mr Y throughout this decision.

What happened

Mr Y was provided with three loans by Lending Stream, as set out below.

Loan	Date	Amount	Monthly repayment
1	17 July 2022	£170	£62.37
2	13 September 2022	£500	£151.05
3	18 September 2022	£300	£100

Mr Y said that adequate checks weren't carried out before the loans were provided and he felt pressured into taking on the extra debt. He said that his financial background wasn't considered nor how he would make the repayments and he wasn't aware of the cost of the borrowing.

Lending Stream issued a final response to Mr Y's complaint dated 10 June 2024. It said that before the loans were provided it asked Mr Y if he was working and how much he earned. It also asked about his regular expenses and checked the responses with independent sources. It carried out a credit check to understand Mr Y's other credit commitments. Based on its checks it said the loans were affordable.

Mr Y referred his complaint to this service.

Our investigator upheld this complaint. She noted that Mr Y had been asked to provide information about his income and expenses but based on further checks his monthly expenses were identified to be higher than the declared amounts. She said that the repayments for loan 1 accounted for a significant portion of Mr Y's disposable monthly income and thought there was a significant risk that he wouldn't be able to meet his existing commitments without borrowing again.

Lending Stream didn't agree with our investigator's view. It noted the comment about loan 1 and said that based on Mr Y's declared income and expenses he had disposable monthly income of £1,109. However, it applied adjustments to the calculations, increasing his credit commitment costs from £184 to £1,260.64. It said Mr Y applied for a £500 loan, but it didn't think this was affordable and a £170 loan was provided. It noted our investigator's comment about Mr Y being at risk of not meeting his existing commitments without having to borrow again but said this was based on an assertion that hadn't been supported.

Regarding loans 2 and 3, Lending Stream said it believed its lending decisions to be fair and proportionate. It said Mr Y provided expenses figures of £1,150 for loan 2 and £970 for loan 3. It considered these to be low and they were increased to £2,101 and £2,163 respectively. It said this was a cautious approach and that using these increased amounts the loan repayments were still affordable for Mr Y.

Our investigator responded to Lending Stream's comments. She said that based on the information Lending Stream gathered the monthly repayments on all three loans wouldn't have been sustainably affordable for Mr Y.

As a resolution hasn't been agreed, this case has been passed to me, an ombudsman, to issue a 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.

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

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Loan 1

Mr Y was provided with the first loan by Lending Stream in July 2022. The loan was for £170 and had a term of 199 days. The total amount repayable was £340 with five monthly payments of £62.37 and a final payment of £28.15. Before the loan was provided, a credit check was undertaken, and Mr Y was asked to provide details of his income and expenses. The declared amounts were then checked against other sources and amended. Given the size and term of the loan and the size of the repayments, I find that these checks were proportionate. I have therefore considered what was identified through the checks to assess whether the lending should have been considered affordable for Mr Y.

Before loan 1 was provided, Mr Y declared a monthly income of £2,573, normal monthly expenses of £925 and credit commitments of £184. I agree that based on these numbers the loan appeared affordable. However, based on the other information available to Lending Stream from third party sources and Mr Y's credit file, the expenses were adjusted. Mr Y's normal monthly expenses were increased to £1,022 and his credit commitments increased to £1,444.64.

I have looked through the results of the credit check and these show that Mr Y had 21 active accounts, no defaults or delinquent accounts recorded. The total amount payable towards his credit commitments (excluding his mortgage) was recorded as £760. This was a lot higher than the amount Mr Y had declared and I think this should have raised concerns about the accuracy of the information Mr Y had provided. However, I note that Lending Stream included its higher calculated figure in its assessment which I find reasonable.

Based on the revised expenses figures Lending Stream identified, Mr Y had monthly disposable income before the lending of around £106. Deducting the loan repayments of around £62 would leave Mr Y with around £44 a month for any additional expenses or unexpected costs. Based on this level of disposable income, I think that there was a high risk that Mr Y wouldn't be able to meet the repayments due over the term of the loan, without incurring further borrowing or missing payments for other commitments.

I note the comments Lending Stream has made about the role it plays in the lending market and the calculations it undertook. I agree it was reasonable to increase the costs from the amounts that Mr Y declared, and I accept that it reduced the loan amount from the amount Mr Y requested. But taking into consideration the repayments Mr Y needed to make, the risk of unforeseen costs or increased costs against the very limited disposable income, I think this should have raised concerns that Mr Y would struggle to make his repayments. Therefore, I do not find that Lending Stream acted responsibly by providing this loan.

Loan 2

Mr Y applied for loan 2 in September 2022. This was less than two months after loan 1 was provided, and the loan amount was larger at £500 (an amount Lending Stream had found unaffordable in July 2022). I think this should have raised concerns.

Mr Y made the first repayment due on loan 1 on 31 August 2022. I have looked through the information gathered before the lending was provided and again, I think the checks were proportionate. Mr Y's declared monthly income of £2,500 was in line with the previous declared amount. Looking at the expenses information, Mr Y declared his normal expenses to be £850 which was less than he declared for loan 1. Again, Lending Stream amended this based on other available information. However, the amended amount was lower than the amount calculated in July 2022 (and also the amount noted a few days later for loan 3) so I think it would have been reasonable to have use the previously recorded figure of £1,022.

The key difference between the calculations for loan 1 and loan 2 was the amount of Mr Y's credit commitments. The credit information gathered showed that Mr Y's total amount outstanding on his active accounts (excluding his mortgage) had reduced from £54,596 to £41,435 and this was reflected in the payments for his non-mortgage accounts which reduced from £760 to £396. However, the credit information also showed that Mr Y had a delinquent account in the previous month. This suggests that Mr Y was struggling to manage his existing commitments and while an assessment of his income and expenses may have resulted in a small amount of disposable income after the loan repayment, I do not find that this was enough, given the other information available to Lending Stream at the time, to say that further lending should have been provided.

Loan 3

Loan 3 was applied for a few days after loan 2 and further increased Mr Y's outgoings and indebtedness. And given the information available to Lending Stream at this time and the pattern of borrowing that was emerging, I do not find that it was responsible to provide this additional lending.

Putting things right

As I do not find that Mr Y should have been provided with the three loans, I do not find that he should be required to pay any interest, fees or changes on these. As he had had the benefit of the loan funds, I find he should be required to repay the amount he received. If Lending Stream has sold the outstanding debts, it should buy these back if possible and then take the following steps. If Lending Stream isn't able to buy the debts back, then it should liaise with the new debt owner to achieve the results outlined below.

Lending Stream should:

A. Add together the total of the repayments made by Mr Y towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything you have already refunded.

B. Calculate 8% simple interest* on the individual payments made by Mr Y which were considered as part of "A", calculated from the date Mr Y originally made the payments, to the date the complaint is settled.

C. Remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr Y as though they had been repayments of the principal on all outstanding loans. If this results in Mr Y having made overpayments then it should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. It should then refund the amounts calculated in "A" and "B" and move to step "E".

D. If there is still an outstanding balance, then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus, then the surplus should be paid to Mr Y. However, if there is still an outstanding balance then Lending Stream should try to agree an affordable repayment plan with Mr Y. It shouldn't pursue outstanding balances made up of principal Lending Stream has already written-off.

E. Remove any adverse information recorded on Mr Y's credit file in relation to all loans. The overall pattern of Mr Y's borrowing for all loans means any information recorded about them is adverse, so Lending Stream should remove these loans entirely from Mr Y's credit file. Lending Stream does not have to remove all loans from Mr Y's credit file until these have been repaid, but it should remove any adverse information recorded about these.

*HM Revenue & Customs requires Lending Stream to deduct tax from this interest. It should give Mr Y a certificate showing how much tax its deducted, if he asks for one.

My final decision

My final decision is that Gain Credit LLC trading as Lending Stream should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y to accept or reject my decision before 2 January 2025.

Jane Archer
Ombudsman