

The complaint

Mr B complains through a representative that Fairscore Ltd trading as Updraft (“Updraft”) failed to carry out a proportionate affordability assessment before it lent to him.

What happened

Mr B took out a personal loan from Updraft for £4,000 to be repaid over 13 months in April 2023. Mr B was required to make 12 monthly payments of £359.79 followed by a final payment of £325.30. Including the loan fee of £160, Mr B was due to repay Updraft a total of £4,642.78. The loan had an APR of 32.75%. The loan appears to have been settled in September 2024.

Following Mr B’s complaint Updraft explained in its final response letter the checks it had carried out and why it didn’t consider it had made an error by approving Mr B for the loan.

Unhappy with this response, Mr B referred the complaint to the Financial Ombudsman where it was reviewed by an Investigator. They concluded, in their most recent assessment, that Updraft had conducted proportionate checks which showed Mr B would likely be able to afford the loan.

Mr B and his representative disagreed, and I’ve summarised the responses below.

- The loan may not have been used for the intended purpose of clearing his overdraft.
- Mr B already had a significant amount of debt when he applied for the loan which he was struggling to manage.
- The Investigator’s outcome is dependent on Mr B using the loan for the intended purpose.

These comments didn’t change the investigator’s mind about the outcome they had reached and so the case has been passed to me to resolve.

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. And I’ve used this approach to help me decide Mr B’s complaint. Having carefully considered everything I’ve decided to partly uphold Mr B’s complaint. I’ll explain why in a little more detail.

Updraft needed to make sure it didn’t lend irresponsibly. In practice, what this means it needed to carry out proportionate checks to be able to understand whether Mr B could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks

were proportionate. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So, we'd expect a firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr B's complaint. Having looked at everything I have decided to not uphold Mr B's complaint and I've explained why below.

Updraft carried out an affordability assessment and creditworthiness check when Mr B applied for his loan, and I've reviewed the information it relied on when it made its lending decision.

Updraft asked Mr B for his annual income, and he declared this to be £37,000 per year. Updraft then went about checking this income and it says that from using Open Banking it was able to determine Mr B's monthly received salary was £2,113.16. As such as its reasonable for Updraft to have used the information as part of his application.

It's also worth saying here that Mr B did declare as part of his application that he received a further income of £35,000 from "other" but Updraft has confirmed that it disregarded this additional income for its affordability assessment which was the right thing to have done.

Mr B also declared that he had housing costs of £475 per month and other monthly living costs (excluding credit commitments) of £450. However, Updraft didn't just accept the figures Mr B had provided. It went about cross referencing what he had declared with information from the Office of National Statistics. Having done this, it increased the amounts declared by Mr B to £546.26 for housing and £592 for other expenditure.

Updraft also carried out a credit search and it's provided a copy of the results that it received. Firstly, it was able to establish that Mr B's existing monthly credit commitments came to £522.13 – which was the more than £400 that Mr B declared as part of his application.

Updraft used the larger figure it received from the credit check rather than the amount declared by Mr B. I think it was reasonable of it to rely on the information given to it by the credit reference agency. Overall, Updraft calculated that Mr B's total monthly outgoings came to £1,660.38. Which left a sufficient amount of disposable income for Mr B to afford the repayment.

The rest of the credit check results didn't suggest that Mr B was struggling to repay his existing debt. There were no missed payments, defaults or any other signs of insolvency. It knew that Mr B had just over £9,000 in credit card debt across six accounts – that had been managed well.

Mr B also had three current accounts with overdrafts totalling, £5,372. I have thought about this because Mr B told Updraft that he was taking the loan to clear his overdrafts. Clearly, given the amount of overdraft debt Mr B had he wasn't going to be able to fully clear his total debt. But I think it's fair to say the loan would've made a significant dent in Mr B's total overdraft balances and would've reduced the monthly commitments he had.

Concerns have been raised about Mr B's overall indebtedness increasing as a result of being granted this loan. But Mr B told Updraft that he would use the funds to repay his overdraft and so Mr B's overall indebtedness wouldn't increase – and it was fair of Updraft to believe Mr B would use the loan for the intended purpose.

The loan also gave Mr B a way to repay debts through a loan within a defined repayment period whereas no such arrangement appeared to be in place for him to reduce his overdraft debt before he took the loan.

While it seems that Mr B maybe didn't use the loan entirely, for its intended purpose, I can't fairly say Updraft ought to have been aware of that before it granted the loan. It was fully entitled to believe Mr B would use the loan to repay the overdraft debt.

However, Updraft has confirmed in the final response letter that as part of the application process Mr B's bank account was linked, in order to use Open Banking. I've asked for a copy of the report, or any information Updraft had about this link. Unfortunately, Updraft says that as there is no longer a connection it isn't a position now to provide us with what it saw at the time.

But given the information Updraft has provided about what it saw in the open banking report I haven't seen enough to make me think that it would've needed to have carried out further checks or to have declined Mr B's application.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Updraft lent irresponsibly to Mr B or otherwise treated him 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.

Overall, based on what I've seen I'm not upholding Mr B's complaint because I'm satisfied Updraft conducted proportionate checks which showed Mr B would be in a position to afford this loan. I am therefore not upholding the complaint.

My final decision

For the reasons I've outlined above, I am not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 14 February 2025.

Robert Walker
Ombudsman