

## **The complaint**

Mr D complains that Etika Finance UK Limited was irresponsible when it offered him credit.

## **What happened**

Etika agreed credit of £327.39 for Mr D in September 2019. The total amount owed was £407.47 to be repaid at £11.32 a month over 36 months. Mr D met his repayments until September 2022 when his direct debit was returned. His final monthly payment was taken as usual in October 2022.

Mr D complained to Etika in May 2024 that it didn't carry out a proportionate affordability check before lending to him and it shouldn't have agreed the credit. Mr D said that at that time some of his existing debts were being managed by third-party debt collectors. He said he missed 17 payments under the agreement and ended up entering into an Individual Voluntary Arrangement for his debts due to this credit being unaffordable.

Etika didn't uphold Mr D's complaint. It said it relied on information he'd provided along with information from his credit file to make its lending decision, and there was nothing in the information it relied on to suggest that he was in financial difficulty. Etika said that defaults shown on Mr D's credit report were historic and there were no late or missing payments reported on his open accounts.

Etika also said that the missed payments on Mr D's account were because of the single returned direct debit payment in September 2022. It didn't collect the missed payment by direct debit and required a manual payment, but this wasn't made until March 2024. Etika said it was likely the delay was due to outdated contact information and an address move, rather than a financial issue. It didn't uphold Mr D's complaint.

Mr D brought his complaint to us. Our investigator assessed the complaint and didn't recommend that it be upheld. They found that Etika had carried out proportionate checks before opening the account for Mr D, that there wasn't anything in the checks which suggested that the credit would be unaffordable for him or that its lending decision was unfair.

Mr D disagreed with our investigator's recommendation and asked for his complaint to come to an ombudsman to decide.

## **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've also had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as Etika, need to abide by. Etika will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, Etika needed to check that Mr D could afford to repay the credit out of his usual income, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit, for example the amount offered, and to Mr D's particular circumstances. Etika needed to treat Mr D fairly and take full account of his interests when making its lending decision.

With this in mind, my main considerations are did Etika complete reasonable and proportionate checks when assessing Mr D's application to satisfy itself that he would be able to make his repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown? Would this information have led to the credit being declined? Ultimately, did Etika make a fair lending decision? Did it treat Mr D unfairly in any other way, including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974?

Etika recorded Mr D's stated income as £3,800 net a month, and that he spent £500 repaying his debts. Etika checked Mr D's credit file which showed he had £8,543 of existing debt. His active accounts included a current account, two mail order accounts, three credit cards and two loans, one of which had been taken out two months prior. There was no adverse information reported about these accounts. There were two defaulted accounts – one from September 2014 and another from March 2016.

Mr D provided us with his bank statements from the time which shows income deposits into his account amounting to about £3,800 on average for the four months prior to the agreement. I think any further verification of Mr D's income figure would have reassured Etika that he was earning what he'd declared in his application.

Etika was offering a relatively modest amount of credit with low monthly payments. The credit file information Etika relied on didn't contain any negative information, apart from defaults which were over three years old. I've concluded that the checks Etika carried out on this occasion were reasonable and proportionate. And there wasn't anything shown in its checks that should have prompted it either to decline to lend to Mr D, or to carry out further checks before doing so. I can't say Etika was irresponsible or unfair to have entered into the agreement with Mr D.

Mr D said that three of his accounts had been passed to debt collectors at the time of the application with account opening dates of October 2007, September 2018 and March 2019. He said these visible and outstanding unpaid debts should have shown that he wasn't managing his existing commitments.

Etika said that none of these debt recovery companies appeared on the credit file information it relied on. Mr D provided a copy of his credit file dated April 2024, which shows the accounts as being owned by debt collectors. It may be that the information Etika relied on was provided by a different credit reference agency or that the accounts were only reported as defaulted after Etika made its lending decision. The accounts are shown on Mr D's credit file as having defaulted in October 2022, April 2023 and October 2022 respectively.

Mr D also said that at the time his overdraft was extremely high and Etika should have taken this into consideration. The closing balances on Mr D's current account statements for the months of May to August 2019 were £1,900, £1,628, £218 and £4,984 respectively. I've noted what appears to be a payment for a holiday for £1,887 in August which may explain the sudden increase in Mr D's overdraft usage. In any case, I don't think this alone should have prompted Etika to decline to lend to Mr D or to look into his finances in more depth before doing so. It seemed the payments for this amount of credit would have been

affordable for Mr D, and that he had sufficient income to sustainably cover his existing debt repayments, including his overdraft borrowings.

I have thought about whether Etika treated Mr D unfairly in any other way. However, for the reasons I've already given, I don't think Etika lent irresponsibly to Mr D 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. It follows that I am not upholding his complaint.

### **My final decision**

For the reasons I've given above, I am not upholding Mr D's complaint about Etika Finance UK Limited and don't require it to take any action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 12 February 2025.

Michelle Boundy  
**Ombudsman**