

Complaint

Miss B has complained that Creation Consumer Finance Ltd (“Creation”) irresponsibly provided her with an unaffordable credit account.

Background

Miss B was initially provided with a credit account, with a credit limit of £1,000.00, in August 2019. This credit account allowed Miss B to purchase goods from a particular retailer.

One of our investigators reviewed what Miss B and Creation had told us. She thought Creation hadn’t done anything wrong and didn’t uphold Miss B’s complaint. Miss B disagreed and asked for an ombudsman to review her complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss B’s complaint.

Having carefully considered everything provided, I’m not upholding Miss B’s complaint. I’ll explain why in a bit more detail.

Bearing in mind, Miss B’s responses to our investigator, I think that it would be helpful for me to start by setting out that we consider what a firm did to check whether any repayments to credit were affordable (asking it to evidence what it did) and determine whether this was enough for the lender to have made a reasonable decision on whether to lend.

Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower’s ability to repay.

That said, I think that it is important for me to explain that our website does not provide a set list of mandated checks that a lender is expected to carry out on every occasion – indeed the regulator’s rules and guidance did not and still do not mandate a list of checks to be used. It simply sets out the types of things that a lender could do.

It is for a lender to decide which checks it wishes to carry out, although we can form a view on whether we think what was done was proportionate to the extent it allowed the lender to reasonably understand whether the borrower could make any repayments. Furthermore, if

we don't think that the lender did enough to establish whether the repayments to credit were affordable, this doesn't on its own mean that a complaint should be upheld.

We would usually only go on to uphold a complaint in circumstances where we were able to recreate what reasonable and proportionate checks are likely to have shown – typically using information from the consumer – and this clearly shows that the repayments in question were unaffordable.

I've kept this in mind when deciding Miss B's complaint.

The credit account Miss B was provided with had a credit limit of £1,000.00. And as this was a revolving credit facility, Creation was required to understand whether Miss B could repay around £1,000.00 within a reasonable period of time. Creation says that it would have asked Miss B to confirm her income and that it carried out a credit check.

It says that it recorded Miss B had an annual income of £60,000.00 and the credit checks showed that Miss B was managing her existing credit commitments well. Miss B disputes this and says that she was not earning £60,000.00 a year as she was only working part-time, whilst being a full-time student.

I've carefully thought about what the parties have said. The first thing for me to say is that I don't know how Creation arrived at a figure of £60,000.00 for Miss B's annual income. However, even if it were to argue that this was a figure that Miss B declared, given her age at the time of the application I think it ought to have taken steps to have checked whether this was correct.

Indeed, the regulator's rules and guidance specifically state that where income is taken, it is generally not sufficient to rely solely on a statement of a prospective borrower's income. As Creation doesn't appear to have taken any steps to check an income figure, which on the face of things looked overoptimistic, I don't think that the checks it carried out before agreeing to provide this facility to Miss B were proportionate.

As Creation did not carry out proportionate checks, I've gone on to consider what such checks are more likely than not to have shown. Bearing in mind the circumstances here, I think it would be reasonable to expect Creation to have had some idea of Miss B's had income and her non-discretionary living expenses, as well as the information on her credit commitments which it had.

Having looked at copies of the bank statements Miss B has provided, I can't see anything within them which clearly demonstrates that Miss B wasn't in a position to make the monthly repayments required to clear the balance on this account within a reasonable period of time. If anything, as Miss B was living at home with parents and had little in the way of committed living costs, the information provided shows the opposite was the case at least at the time the account was approved.

I accept that Miss B's full circumstances may not be reflected in the information Creation gathered or in the information she's now provided. For example, I've seen what she has said about her personal circumstances and the difficulties she's had. But bearing in mind what the bank statements I've been provided with show, which Creation in any event was not required to obtain at the time, I can't reasonably say that further checks would have prevented Creation from providing this credit account to her.

I've also seen what Miss B has said about being led to believe that her agreement was interest free. However, I've had a look at a copy of Miss B's signed credit agreement and can

see that any qualifying purchases had a 'buy now pay later' ("BNPL") period. The BNPL was six months and if Miss B paid the amount borrowed in full she'd pay no interest.

However, if Miss B did not settle the balance by then, she'd have to pay the interest accrued during the BNPL period as well as interest going forward. As Miss B did not settle her account by the BNPL date, I don't think that it was unfair for Creation to charge the interest that it did.

In reaching my conclusions, I've also considered whether the lending relationship between Creation and Miss B might have been unfair to Miss B under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Creation irresponsibly lent to Miss B or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

So overall and having carefully considered everything, while I don't think that Creation's checks before agreeing to lend to Miss B did go far enough, I've not been persuaded that Creation doing more, in this instance, would have prevented it from lending. As this is the case, I'm not upholding Miss B's complaint. I appreciate this will be very disappointing for Miss B. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Miss B's complaint, I like to remind Creation of its obligation to exercise forbearance and due consideration, given what Miss B has said about her circumstances during the course of her complaint.

I would also encourage Miss B to get in contact with and co-operate with any steps that may be needed to review what she might, if anything, be able to repay going forward. Miss B may be able to complain to us – subject to any jurisdiction concerns – should she be unhappy with Creation's actions in relation to exercising forbearance on the remaining balance.

My final decision

For the reasons I've explained, I'm not upholding Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 3 March 2025.

Jeshen Narayanan
Ombudsman