

The complaint

Mr A has complained about a loan UK Credit Limited provided to him. He says the loan was unaffordable and therefore shouldn't have been given to him.

What happened

In September 2018 Mr A applied for a £5,000 loan with UK Credit. The interest rate was fixed at 47.85% per annum, and the total repayable, including the interest, was £9,503.28. He was due to make 36 monthly repayments of £263.98.

The direct debit was first returned in November 2018, and UK Credit had been accepting reduced payments since August 2019. The interest rate was reduced to 0% in October 2020, and the loan was repaid in September 2023.

In March 2024, Mr A complained to UK Credit to say the loan should never have been provided to him. UK Credit didn't think it had acted unfairly when lending to Mr A.

Our investigator thought UK Credit hadn't carried out reasonable and proportionate affordability checks and they said, if those checks had been done correctly, UK Credit shouldn't have lent to Mr A due to his financial circumstances.

UK Credit didn't agree, so the complaint has been passed to me 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.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case. What is proportionate will vary with each lending decision and considers things such as (but not limited to): the amount of credit, the size of the repayments, the cost of the credit, the purpose the credit was taken out for and the consumer's circumstances.

Essentially, Mr A needed to be able to meet his financial commitments and not have to borrow elsewhere to repay UK Credit for the loan to be considered affordable and sustainable.

UK Credit has provided information to show it asked Mr A about his income and searched his credit file before lending. In the application call UK Credit had with Mr A for the loan, he declared he was employed part time, shared rented accommodation and had a typical income of £2,208 a month. UK Credit has said it verified Mr A's income electronically, but it

hasn't provided the evidence of that.

UK Credit completed a credit check and asked Mr A about that, although it doesn't seem it asked him about all of the debts that were showing and, as our Investigator explained, Mr A's recollections of his debts weren't that clear.

The credit report showed that Mr A had:

- various current accounts, one of which was overdrawn by £62
- multiple credit cards, two of which were up to their credit limit and another that was over its limit and with its latest payment due showing as missed
- a loan with a balance of around £1,880 and payments of £97 a month
- a motor insurance policy of around £1,920 and payments of £64 a month
- a credit card account that had defaulted in June 2017 with a default balance of £444.

I've thought about the checks and the particular circumstances here and I don't think UK Credit did enough before agreeing the loan. I say that because this wasn't a small liability for Mr A, and his credit file suggested he wasn't managing his finances as well as he could be and perhaps wasn't financially stable. I don't think in the circumstances an electronic verification of Mr A's income was sufficient (albeit even evidence of that hasn't been provided by UK Credit). I think in addition to verifying his income beyond what it says it did, UK Credit should also have been looking to understand Mr A's outgoings in the circumstances. Based on the information declared, Mr A should have had around £1,000 a month in disposable income, but his credit file and need for this loan don't support that. Putting everything together, overall I don't think UK Credit did enough before agreeing to lend.

I have therefore considered what the results of these better checks would have been and how they ought to have affected UK Credit's lending decision.

To understand Mr A's circumstances around the time of this loan, I've reviewed his bank statements. In the absence of further checks by UK Credit, I think it's fair in the circumstances to rely on Mr A's actual circumstances at the time. From what I can see, Mr A didn't receive an income of over £2,200 a month from employment at the time. I can see he received an average of around £1,120 a month (based on his bank statements covering the period from 1 July 2018 to 31 August 2018).

The remainder of the credits were amounts from third parties, plus transfers in from another of Mr A's accounts which can't be used as part of Mr A's income. For example, one of the payments in UK Credit identified was £2,500 on 21 September 2018, but it can be seen from Mr A's other bank statements (which I have reviewed in full) that this was part of the loan proceeds that UK Credit had released the day before.

There was also what appears to be a £600 payday loan paid into Mr A's account at the end of August 2018.

In terms of Mr A's outgoings, across all his accounts, there were regular payments out for bills, including three separate car tax payments (totalling £61.25 a month), and around £80 a month on communication accounts amongst others. There were also multiple direct debits that had been returned as unpaid due to there being insufficient funds available.

Overall, even without taking into account this new monthly commitment of £263.98, it is clear Mr A was struggling with his finances. In Mr A's circumstances, he wasn't in a position to afford the loan. I think further checks were needed by UK Credit here and those further checks would likely have shown Mr A couldn't afford the loan.

Having considered everything very carefully I haven't been persuaded that the decision to proceed with the loan was in Mr A's best interests overall and I don't think the lending was affordable or sustainable. UK Credit in my view has lent when it shouldn't have, and it needs to put things right.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr A in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

When he referred the complaint to us Mr A also made reference to how UK Credit had treated him whilst he was in financial difficulties. Our Investigator didn't uphold this part of the complaint and Mr A indicated he accepted our Investigator's findings and so I won't go into that here, other than to say I agree with what our Investigator said on that point.

Putting things right

To put things right for Mr A, UK Credit must do the following:

- Remove all interest, fees and charges on the loans and treat all the payments Mr A made as payments towards the capital. As this rework will result in him having effectively made payments above the original capital borrowed, then UK Credit should refund this money to Mr A plus 8% simple interest applied to the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr A's credit file in relation to the loan.

*HM Revenue & Customs requires UK Credit to deduct tax from this interest. UK Credit should give Mr A a certificate showing how much tax it's deducted if he asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct UK Credit Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 11 July 2025.

Julia Meadows

Ombudsman