DRN-5350060

The complaint

Mr W complains that Admiral Financial Services Limited ("Admiral") lent to him in an irresponsible manner.

What happened

Mr W has borrowed twice from Admiral. He first borrowed £4,500 in February 2020 and agreed to repay the loan in 60 monthly instalments. He then took a further loan, in May 2023, of £15,000 that he again agreed to repay in 60 monthly instalments. At times Mr W has found it difficult to make his repayments. At the time he made the complaint Mr W still had a balance outstanding on both loans.

Mr W's complaint has been assessed by one of our investigators. He thought that the checks Admiral had done before agreeing the first loan had been sufficient. And he thought that those checks showed Mr W would be likely to be able to sustainably afford the repayments. But the investigator thought that the checks Admiral had done before agreeing the second loan should have led the lender to conclude the additional borrowing would be unaffordable. So he thought part of the complaint should be upheld and asked Admiral to pay Mr W some compensation.

Admiral didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. If Mr W accepts my decision it is legally binding on both parties.

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr W's complaint.

The rules and regulations at the time Admiral gave these loans to Mr W required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Admiral had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr W. In practice this meant that Admiral had to ensure that making the repayments wouldn't cause Mr W undue difficulty or adverse consequences. In other words, it wasn't enough for Admiral to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr W.

Checks also had to be "proportionate" to the specific circumstances of the loan applications. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Admiral did what it needed to before agreeing to lend to Mr W.

Admiral gathered some information from Mr W before it agreed the first loan. It asked him for details of his income, and then used some industry statistical data to estimate Mr W's normal living costs. And it checked Mr W's credit file to assess how much he was repaying to other creditors and how he had managed credit in the past.

Mr W was entering into a significant commitment with Admiral. He would need to make monthly repayments for a period of five years. So I would expect that Admiral would want to gather, and independently check, some detailed information about Mr W's financial circumstances before it agreed to lend to him. I think that the checks it did were enough.

The checks that Admiral performed showed that Mr W did have some other borrowing at the time of his application. But he appeared to be managing his credit well and didn't show any signs of financial difficulties. Based on the income that he had declared, the credit outgoings shown on his credit report, and the expenditure Admiral had estimated, it appeared likely that Mr W would be able to afford these additional repayments relatively easily. So I don't think Admiral was wrong to give this first loan to Mr W.

Mr W asked for some further borrowing around three years later. So at that time he was still repaying his existing loan and would continue to do so for some time. Admiral performed similar checks to those it undertook on the first loan. I think that Admiral might have had some concerns that Mr W had returned for some additional borrowing, but I think those concerns should have been heightened once it reviewed the results of the checks.

I don't need to make a finding here on whether I think the checks Admiral performed were proportionate. Even if I thought they were, simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case.

The results of Admiral's checks showed that Mr W was borrowing heavily from a number of other lenders – he had at least five other loans open when he made this application together with extensive credit card debts. And its affordability check showed that Mr W had little, if any, disposable income that he could use to make his repayments.

I accept that Mr W told Admiral that he wanted to use the loan to consolidate some other debt. Admiral has told us that Mr W would use the loan to repay one of his other loans and all his credit card debt. And by doing that his disposable income would increase (after accounting for the new loan repayment) by approximately £62 per month. But I don't think that should have given Admiral any comfort that Mr W would be able to sustainably afford this borrowing.

By consolidating his credit card debt, Mr W would have enabled spending on those cards to recommence. As Admiral will be aware consumers that have faced problems managing their money in the past frequently face similar problems in the future. I don't think Admiral could have any confidence that the small increase in disposable income that its loan might have provided to Mr W would give him the level of safety that might be needed to ensure any repayments remained sustainable over a period of five years.

After Mr W made his complaint Admiral appears to have obtained and reviewed his bank statements from the time of the loan. It says those demonstrate that Mr W's disposable income was actually higher than its calculations at the time showed. So it says if it had carried out better checks its decision to lend would have been even more appropriate.

But Admiral didn't ask for Mr W's bank statements before it provided the loan to him. It based its decision on what I think were flawed assumptions about Mr W's future disposable income. I don't think the information Admiral held reasonably suggested that Mr W would be able to repay his loan in a sustainable manner. So I don't think it was reasonable for that loan to be provided to him.

For completeness I've also considered whether Admiral acted unfairly or unreasonably in some other way given what Mr W has complained about, including whether its relationship with him might have been viewed as unfair by a court under s.140A of the Consumer Credit Act 1974. But, I'm satisfied the redress I have directed above results in fair compensation for Mr W 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.

Putting things right

I don't think Admiral should have agreed to provide the second loan to Mr W that he was given in May 2023. It appears that loan remains open so Admiral should;

- remove any interest and charges still outstanding on the second loan and treat all the payments Mr W made towards this loan as payments towards the capital

- if reworking Mr W's loan account as I've directed results in Mr W effectively having made payments above the original capital borrowed, then Admiral should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement†.

- If reworking Mr W's loan account leaves an amount of capital still to be paid I remind Admiral that it should take a sympathetic view when seeking to agree an affordable repayment plan with Mr W.

- Once the loan capital has been fully repaid Admiral should remove any adverse information recorded on Mr W's credit file in relation to the loan

† HM Revenue & Customs requires Admiral to take off tax from this interest. Admiral must give Mr W a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold a part of Mr W's complaint and direct Admiral Financial Services Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 10 April 2025.

Paul Reilly
Ombudsman