DRN-5374745

The complaint

Ms Z says Norwich Trust Limited (NT), trading as UK Credit, irresponsibly lent to her.

What happened

Ms Z took out a loan for £20,000 over ten years from NT on 17 March 2023. The monthly repayments were £397.16 and the total repayable was £47,659.20. Ms Z says her circumstances were not adequately assessed by NT; she was already under financial strain. NT should have ensured she used the loan to settle existing debts as she said she would. Also, the terms and conditions were not made clear. Ms Z says she felt pressured to take out the loan and did not have the time to make an informed decision.

NT says it carried out proportionate affordability and creditworthiness checks that showed Ms Z could afford the loan. There is no evidence from the call between the parties that Ms Z was pressured into taking the loan.

Our investigator did not uphold Ms Z's complaint. He said the lender's checks were adequate and showed the loan would be sustainably affordable for Ms Z.

Ms Z disagreed and asked for an ombudsman's review. She said, in summary, the NT's assessment of her monthly disposable income was wrong – for example, it did not include £1,000 of nursery fees she paid each month. It does not take into account existing commitments. She did not have that amount of remaining income, in fact she was already struggling and borrowing from family. There were red flags NT ignored, such as returned direct debits and high utilisation on her cards at 100% of credit limit.

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.

This means I have considered all of the points in Ms Z's submissions carefully. In keeping with our role as an informal dispute resolution service – and as our rules allow – I will however focus here on the issues I find to be material to the outcome of her complaint.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when NT lent to Ms Z required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check. The checks also had to be borrower-focused. So NT had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Ms Z. In other words, it wasn't enough for NT to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Ms Z. Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for.

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 NT did what it needed to before agreeing to lend to Ms Z. So to reach my conclusion I have considered the following questions:

- did NT complete reasonable and proportionate checks when assessing Ms Z's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did NT make a fair lending decision?
- did NT act unfairly or unreasonably in some other way?

I can see NT reviewed certain information before it approved the loan. It used 12-months' open banking data to analyse her income, housing costs and essential living costs. It ran a credit check to understand her existing monthly credit commitments and repayment history. It spoke to Ms Z to check it had interpreted her banking data correctly and had an accurate picture of her income and expenditure. From these checks combined NT concluded Ms Z would be left with enough monthly disposable income (£2,413.67) for the loan to be deemed affordable.

I think these checks were proportionate as they were based on Ms Z's actual income and fixed expenses. They did not rely on her declarations, national averages or statistical models as may be appropriate for lower value loans. In addition, NT called Ms Z to run through its assessment on a line-by-line basis to ensure it had interpreted the open banking data accurately.

And given the results of these checks I find NT made a fair decision to lend to Ms Z. It learnt she had monthly income (from employment and property rental) of £4,950.40 and non-discretionary outgoings of £2,139.57 so it was reasonable to conclude Ms Z could afford to take on the new repayment of £397.16.

Ms Z argues the assessment didn't reflect her actual position, for example it didn't include her nursery costs which were around £1,000 a month. But there was no monthly debit for this amount in the open banking data. She has explained that this was because her family often paid them directly, but unless she had disclosed this NT could not reasonably be expected to know this. And I note she told NT there were no under 18s resident at her address, so I can't see it should have been looking out for the associated costs of having a dependent.

She also says she was already struggling financially, but the credit check NT completed did not reflect this. She had no adverse data recorded against her and all her active accounts were up-to-date. The check showed she was not using an overdraft facility and she confirmed that on the call. She had £1,540.47 of monthly credit commitments (including her secured loan, but not her mortgage). This loan was primarily to consolidate debt and she had told NT she would be clearing her credit cards and the larger of her two unsecured loans so her monthly spend on credit would reduce.

Ms Z says it was wrong NT relied on her stated purpose of debt consolidation. But NT won't have known whether Ms Z would actually pay of her existing balances – all it could do was take reasonable steps and rely on assurances from Ms Z that this would be done with the funds from this loan.

Ms Z had unsecured debts of £22,747 so I'm satisfied that the proceeds of this loan could and should have been used to clear a significant proportion of the existing debt that Ms Z had - as she said she would at the time. Equally, as this was a first loan NT was providing to Ms Z, there wasn't a history of Ms Z obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. So NT was reasonably entitled to believe that Ms Z would be left in a better position after being provided with this loan.

Ms Z says NT ignored red flags such as high credit utilisation of 100% but the checks it completed did not show this to be the case – and I can only fairly expect it to respond to the results its check returned. Equally the open banking data did not show any retuned direct debit fees – and Ms Z confirmed on the call she had no bank charges to be considered.

In summary, from the available evidence, I am satisfied NT made a fair lending decision. To be clear, this is not to say I am disputing Ms Z's testimony that she was struggling and having to borrow informally, but it would not have been proportionate for NT to carry out the level of financial review needed to possibly discover this. It is not what the lender's proportionate checks showed.

Ms Z also says she wasn't given clear information on the terms and conditions of the loan account and felt under pressure to proceed. I find the loan agreement Ms Z signed made the costs as well as the terms and conditions clear. And on the 30-minute 'security call' that I have listened to the underwriter confirmed the loan amount, the term, the monthly repayment, the total amount payable over the term and the interest rate. A pre-recorded script was also played which detailed the main terms and conditions of the loan and Ms Z's responsibilities. There is no evidence from that call that Ms Z was pressured into accepting this loan. Rather, she was asking about next steps and how soon funds would be released. Similarly It was Ms Z that asked if the loan value could be increased towards the end of the call – it was not a suggestion from NT. So I cannot fairly conclude NT applied any pressure on Ms Z to proceed during the application process.

I've then considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think NT lent irresponsibly to Ms Z or otherwise treated her 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.

My final decision

I am not upholding Ms Z's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms Z to accept or reject my decision before 9 April 2025.

Rebecca Connelley
Ombudsman