DRN-5440492

The complaint

Miss V complains that Fairscore Ltd trading as Updraft (Fairscore) irresponsibly lent to her.

What happened

In April 2023 Miss V entered into a Fixed Sum loan agreement with Fairscore for £8,000. This was repayable over 60 months with 59 monthly payments of £221.13 and a final payment of £459.30. After interest and charges were applied Miss V in total needed to repay £13,505.97. The purpose of the loan was for the consolidation of debt. In January 2024 Miss V entered into a second Fixed Sum loan agreement with Fairscore for £7,000. This was again repayable over 60 months with 59 monthly payments of £202.58 and a final payment of £51.46. After interest and charges were applied Miss V had in total to repay £12,206.26.

Miss V said Fairscore didn't sufficiently check she could afford the loan repayments for either loan, and if they had they would have seen she was struggling financially and already over indebted. She complained to Fairscore.

Fairscore said that their checks had been proportionate and reasonable for the first loan. But they should have seen Miss V had become further indebted for loan two which they should have looked further into. They agreed they didn't make a fair lending decision for loan two and to put things right they have removed all interest and charges and agreed with Miss V an affordable repayment plan.

Miss V wasn't happy with Fairscore's response, she reiterated they shouldn't have agreed the first loan. And for the second loan they'd reduced the term of the loan but hadn't reduced her monthly repayment. She referred her complaint to us.

Our investigator said Fairscore had acted fairly in agreeing to the first loan. And that the repayment plan they'd put in place for Miss V had been agreed with her. He didn't ask Fairscore to do anything further.

Miss V disagreed and asked for 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 understand my decision will disappoint Miss V but I don't uphold this complaint as I agree with our investigator's reasoning and outcome. I'll explain why.

Loan One – April 2023 - £8,000

In deciding whether to lend, Fairscore needed to assess whether the loan was affordable and sustainable for Miss V, having carried out proportionate checks of her circumstances. The checks should be proportionate considering factors like the nature of the borrowing, the amount borrowed and the monthly payments. Having carried out these checks, they should assess the results of the checks to decide whether to lend or not. The relevant guidance here is the Consumer Credit sourcebook (CONC) 5.2A.

In making her application, Miss V told Fairscore that her annual income was £64,238, and that she'd outgoings of £200 for housing costs and £250 for general expenditure. She said the purpose of the loan was for debt consolidation.

Fairscore verified Miss V's income by checking her salary payments into her bank account. They did this by obtaining the details through open banking. They averaged Miss V's monthly salary to be £2,561.45. I'm satisfied Fairscore took reasonable steps to determine Miss V's income and didn't solely rely on the salary she declared in her application as they verified her income through her bank account.

Fairscore checked Miss V's credit file for details of her outstanding credit commitments, an independent source. This showed she'd several credit cards, a current account with an overdraft facility, a basic bank account, two mail order accounts and a telecommunications account. Miss V's credit file showed she a total debt of £38,739. From this Fairscore assessed Miss V's credit commitments to be £1,175.40 a month.

Miss V declared that she'd housing costs of £200 per month and other monthly living costs (excluding credit commitments) of £250. But as part of the application process, Fairscore didn't just accept the figures Miss V had provided. They checked this against information from the Office of National Statistics. Having done this, they increased the amounts declared by Miss V to £230 for housing and £631 for other expenditure. Fairscore didn't verify Miss V's expenditure (other than on credit commitments) – but they don't have to. The expectation is that a business will take reasonable steps to determine a borrower's non-discretionary spending. And CONC 5.2A.19 allows for the use of statistical data. So, I'm satisfied Fairscore took reasonable steps to determine Miss V's most likely outgoings.

Fairscore also checked whether Miss V was showing any signs of financial vulnerability. And her credit file showed she was up to date with her repayments, her credit file didn't show any defaults or county court judgements.

So, I satisfied the checks Fairscore made were proportionate to the type of lending Miss V applied for as they'd verified her income and taken reasonable steps to determine her outgoings and credit commitments from an independent source. I'm satisfied it was reasonable for Fairscore to conclude the lending was affordable.

I've also thought about whether Fairscore reasonably concluded that the lending was sustainable, and I'm satisfied of that too. From the evidence they gathered Fairscore determined Miss V had a disposable income after deducting her outgoings from her income of around £525 a month, which would be considered sufficient to sustain the loan repayment of around £221.

Miss V said that the lending wasn't sufficient to consolidate her debts. While I can see she'd several credit cards, some of which had a zero or low balance. Two did have high balances and were being used close to their credit limit. But Miss V also had other high interest-bearing debts, an overdraft of around £1,500 and a mail order account with an outstanding balance of around £3,000 which the new lending should have settled, leaving around £3,500 to reduce her credit card balances. Clearly, given the amount of debt Miss V had she wasn't going to be able to fully clear her total debt. But I think it's fair to say the loan would have settled or reduced her balances for the higher interest-bearing accounts and so would have reduced her monthly commitments.

Although Miss V had fairly substantial pre-existing debt, it was well managed with no missed payments or defaults. And, given that her stated aim for the loan was to repay some debt, her expenditure on other commitments would reduce once the loan was granted. And as the loan would have reduced Miss V's debt her overall indebtedness wouldn't have increased as the interest applied to this loan was lower than some of the interest being applied to some of her existing debts. So, I don't think there was anything that ought to have led Fairscore to conclude that the loan was unsustainable.

Overall, based on what I've seen I'm not upholding Miss V's complaint because I'm satisfied Fairscore carried out proportionate checks which showed Miss V would be in a position to afford this loan.

Loan Two - £7,000 – January 2024

Fairscore has accepted they shouldn't have lent further to Miss V so I won't comment further about this lending decision. But Miss V has complained that Fairscore hasn't acted fairly in how they've put things right.

Our starting point for putting thigs right in this situation would be that as the borrower will have had the use of the money they were lent, it's fair that they should repay the amount they were lent. But nothing more. So, we'd ask the lender to refund all the interest, fees and charges added as a result of the funds that were irresponsibly lent, so that the consumer paid no more than the amount lent. Fairscore has shown that they've removed the interest and charges form the loan and recalculated the balance now owed by Miss V, which is in line with our approach to putting things right.

We'd also expect a business to work with the borrower to agree an affordable repayment plan for any outstanding balance that remains. From the records I've seen Fairscore have sought an understanding from Miss V about her income and expenditure. And I can see from this they've put in place a repayment plan which they've agreed with Miss V for a reduced monthly repayment amount. Fairscore has confirmed that this is being maintained with no missed payments. So I'm satisfied Fairscore has acted fairly in how they've put things right. But I'd expect Fairscore to continue to treat Miss V with forbearance and consideration while she remains in financial difficulty.

I've also 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 Fairscore lent irresponsibly to Miss V or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that s140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Miss V to accept or reject my decision before 2 May 2025.

Anne Scarr
Ombudsman