DRN-5535871

The complaint

Mr T, through a representative, says UK Credit Limited lent to him irresponsibly.

What happened

Mr T took out a guarantor loan from UK Credit on 15 November 2018. It was for £2,000 over 36 months. The monthly repayment was £113.14 and the total repayable was £4,084.20. It was given on the basis that Mr T had a guarantor who would be responsible for the repayments if Mr T failed to make them.

Mr T says he was in a huge amount of debt and should not have been given this loan. He was already struggling and spending all of his income on gambling. His bank statements were not checked.

UK Credit says it carried out proportionate checks that showed the loan was affordable for Mr T.

Our investigator did not uphold Mr T's complaint. He said UK Credit's checks were adequate and it made a fair lending decision based on the information it gathered.

Mr T disagreed and asked for an ombudsman's review. In summary, he said UK Credit's assessment of his monthly living costs at £464.68 seems very low. The lender's checks cannot have been borrower-focused given it was clear he was already over-indebted. As the loan had a three-year term his bank statements should have been reviewed.

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.

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

The Financial Conduct Authority (FCA) was the regulator when UK Credit lent to Mr T. Its rules and guidance, set out in its Consumer Credit Sourcebook (CONC), obliged UK Credit to lend responsibly. Amongst other things, UK Credit was required to carry out a reasonable and proportionate assessment of whether Mr T could afford to repay what he 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 UK Credit had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr T. In other words, it wasn't enough for UK Credit to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr T. 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 (eg. 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 UK Credit did what it needed to before agreeing to lend to Mr T, and have considered the following questions:

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

UK Credit asked for some information from Mr T before it approved the loan. It asked for details of his income. It checked this using a third-party income verification tool. It asked about his housing and living costs. It checked his credit file to understand his credit history and existing debts. From these checks combined UK Credit concluded Mr T would have monthly disposable income of £722.18 after making the repayment and so the loan was affordable.

I think these checks were proportionate given the value of the loan and the monthly repayment relative to Mr T's verified income. And I find UK Credit made a fair lending decision based on the results. I'll explain why.

Mr T declared a net monthly income of £1,300 that UK Credit successfully verified. He declared total non-discretionary costs of £343.33 and UK Credit calculated his existing credit costs to be £121. Mr T's representative has commented that these living costs seem low but Mr T explained at the time that he lived with his parents and paid £120 a month for all his housing and living costs. In these circumstances I cannot see there was any reason for UK Credit to do further checks. So the loan appeared affordable on a pounds and pence basis.

UK Credit also needed to check the loan was sustainably affordable, that is that Mr T could repay it without borrowing further and that there would not be any adverse financial consequences for Mr T. Mr T argues he already had a lot of debt. UK Credit's credit check showed he had no active debt, no active payday loans and no overdraft facility in use. It did show that he had struggled financially in the past with four accounts defaulting in 2013/2014.

But this was several years prior and he had either settled or had payment plans in place for this defaulted debt. The debt totalled £2,660. There was one more recent default of £51 in 2017 which Mr T was repaying. He explained this had been caused by a problem with the direct debit and the lender's lack of responsiveness to his attempts to resolve this. One of the 2013 defaulted debts had a CCJ registered in January 2018. Mr T told UK Credit there was now a payment plan in place for that balance. It included the repayment cost of all of these older debts in its affordability assessment.

So whilst I can see Mr T had been under financial pressure historically I think it was reasonable for UK Credit to conclude he was now back on top of his finances and would be able to repay this loan sustainably. Mr T told us his gambling was problematic but UK Credit would not have known this from its proportionate checks. There is no obligation on a lender to review bank statements and as I have explained I am satisfied the level of checks here was appropriate. I hope Mr T now has the support he needs, if not he could contact GamCare on 0808 802 0133.

It follows I do not think UK Credit was wrong to lend to Mr T.

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 Uk Credit lent irresponsibly to Mr T or otherwise treated him 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 Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 4 June 2025.

Rebecca Connelley
Ombudsman