

The complaint

Miss K complains that Plata Finance Limited ('Plata') irresponsibly granted her a personal loan agreement she couldn't afford to repay.

What happened

In September 2023 Miss K took out a personal loan with Plata. Under the terms of the loan agreement, Miss K was borrowing £6,000 and paying it back by way of 24 monthly payments of £336.44. The total repayable under the agreement was £8,074.44.

Miss K says that Plata didn't complete adequate affordability checks and so lent to her irresponsibly. She says if it had it would have seen the agreement wasn't affordable as she was already struggling with debt, including existing credit. She also says the loan had an adverse impact on her financial circumstances.

Plata didn't agree. It said that it carried out a thorough assessment which included using the information Miss K gave in her application, information provided by a credit reference agency and statistical information. But in view of the difficulties Miss K had been experiencing in meeting the repayments, it agreed to write off her loan arrears balance.

Our investigator recommended the complaint be upheld. They thought Plata ought to have carried out better checks at the outset. Had it done so it would have seen that the agreement was unlikely to be affordable for Miss K.

As Plata doesn't agree with our investigator's finding, the complaint has been passed to me for a decision.

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 explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss K's complaint.

When Miss K applied for the loan, Plata asked her about her work status and monthly income. She said she had an average monthly income of around £2,000. She also told Plata that she was paying £100 per month towards her accommodation and £865 in other credit she owed.

Plata also carried out a credit check. It showed she owed around £10,400 in outstanding credit but there were no recent adverse markings on her credit file, such as defaults or consecutive missed payments. She had three credit cards on which she owed a total of around £5,400. She'd also taken out four loans, on which she owed a total of around £3,800. She was paying around £500 per month to service the loans. She also had three current accounts, on one of which she had an approved overdraft of £1,000. Lastly, she was making payments towards car insurance and a mobile phone, which worked out at a further £100.

Plata also relied on statistical information to work out what Miss K's monthly committed spending was likely to be and whether she'd have enough disposable income to cover the new loan instalments. Having done so, it found it to be affordable, having allowed for her other essential costs and also for contingencies and emergencies.

From the perspective of Miss K's specific financial circumstances, Plata could see from the credit check that she was heavily committed on her credit cards and was operating four loan accounts – the two most recent having been opened in early 2023.

A further factor, which could also be seen on the credit report, was that Miss K was exceeding the overdraft she had with one of her current accounts. Over-reliance on an overdraft is always a potential source of concern and going over an agreed limit suggests that Miss K may have been having difficulties with her overall financial situation.

Plata says it understood that Miss K was taking the loan for consolidation purposes, although I can't see this stated on the application details I've seen. As it didn't ask for details of the accounts to be repaid – or seek to arrange payment to those accounts direct – that meant it was possible that the loan could be used for other purposes Miss K might feel to be urgent.

I agree that the loan could have been used by Miss K to reduce some – but not all – of her overall burden of debt. Although without knowing more about her wider financial situation in terms of her monthly and ongoing spending commitments, Plata couldn't be sure that the loan was affordable or that she would be able to pay it back on a sustainable basis.

I should add here that I also can't see what if any steps were taken to verify Miss K's declared level of monthly income.

I therefore agree that Plata should have carried out better checks. Rather than relying on statistical information, it could have asked Miss K to provide a full breakdown of her monthly spending. This could have been achieved, for example, by way of asking for sight of bank statements.

Our investigator obtained copies of Miss K's bank statements from the months leading up to the loan being approved. I've reviewed these myself and am in broad agreement with what she found. In her initial finding, our investigator worked out that, with an average monthly income of around £1,800 and average committed spending – including rent, household costs, food, travel and her existing credit costs – of around the same amount, Miss K had already used up all of her available income each month. This left with a nil, or potential negative figure, for disposable income out of which she would have to meet the new repayment.

By taking the loan, Miss K was committing to a monthly payment of £336.44 each month for the next 24 months. Whilst this may well have been used to pay off some of her existing credit and could reduce her total monthly credit commitments, she would be left with a significant amount of debt to repay, alongside her new repayment. So I think there was a real risk that she would start to build up debt again by using the available credit she'd now freed up.

From what I've seen, I agree that, at the point of applying for the loan, Miss K's financial welfare was already deteriorating. And so by taking on further debt she was putting herself in a position where she would be likely to have to find funds to repay what was an unsustainable level of credit she owed each month, worsening her already stretched financial situation. Had Plata carried out better checks, it would have been better placed to

make a reasonable and proportionate lending decision. But as things stand, I don't think it did.

I should add that I've taken into consideration each point made by Plata in response to our investigator's initial view finding. But it doesn't lead me to change my finding.

I am therefore upholding this complaint.

I've considered whether the relationship between Miss K and Plata might have been unfair under S.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Miss K results in fair compensation for her in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right – what Plata needs to do

As I don't think Plata ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or add charges under the loan agreement. Miss K should therefore only have to pay the original loan amount, being £6,000.

To settle Miss K's complaint Plata should therefore do the following:

- Refund any payments Miss K has made in excess of £6,000. It should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Miss K's credit file regarding the agreement.

*HM Revenue & Customs requires Plata to take off tax from this interest. Plata must give Miss K a certificate showing how much tax it's taken off if Miss K asks for one.

My final decision

I uphold this complaint and require Plata Finance Limited to put things right in the manner I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 30 September 2025.

Michael Goldberg

Ombudsman