

The complaint

Mr K complains that Fintern Ltd trading as Abound lent irresponsibly when it approved a loan application he made.

What happened

The background to this complaint and my initial conclusions were set out in a provisional decision. I said:

In January 2024 Mr K applied for a loan of £10,000 over a 60 month term with repayments of £270.66 with Abound. In his application, Mr K said he was employed full time with an income of £37,416 a year or £3,118 a month and that he was renting at £950. Abound says it carried out various lending checks including verifying Mr K's average monthly income and outgoings via Open Banking transactions from his current account. Abound also looked at Mr K's credit file and Open Banking transactions to get a picture of his monthly payments to cover existing debts. Abound found Mr K already owed around £25,000 in unsecured debt and says he was making monthly repayments of £773. No adverse credit or recent missed payments were found on Mr K's credit file. Abound used the information available from Mr K's application, credit file and Open Banking data to verify his income and outgoings. Abound says Mr K had an average disposable income of around £1,100 after covering his existing outgoings. Abound approved Mr K's loan application and the funds were issued.

Last year, Mr K complained that Abound lent irresponsibly and it sent him a final response. Abound provided details of the figures it used when processing Mr K's loan application and said the loan was approved in line with its lending criteria. Abound also said that whilst there were small signs of gambling and investment payments being made by Mr K it was at a low level and not sufficient to lead to his application being declined. Abound didn't agree it had lent irresponsibly and didn't uphold Mr K's complaint.

An investigator at this service looked at Mr K's complaint. They thought Abound had carried out reasonable and proportionate lending checks before approving Mr K's loan application. The investigator thought the decision to lend was reasonable based on the information Abound found. Mr K asked to appeal and said his income was lower and outgoings higher than the figures Abound had used in its application. Mr K also provided bank statements to show his circumstances around the time of his application. As Mr K asked to appeal, his complaint has been passed to me to make a decision.

What I've provisionally 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.

Before agreeing to lend, the rules say Abound had to complete reasonable and proportionate checks to ensure Mr K could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

Whilst I can see Abound checked Mr K's credit file and used Open Banking to monitor his current account movements, I haven't been persuaded the level and nature of checks it completed were reasonable when considering his circumstances. I note the credit file data Abound supplied in its original file submission said Mr K was making monthly repayments of £773 against a total outstanding balance of around £25,000. But, looking at the list of Mr K's open accounts, it appears to me that £773 only represents payments he was making towards hire purchase and loans in his name. No payment amount for Mr K's credit cards was recorded. Mr K had three credit cards with a total outstanding balance of £6,578. Taking a 5% monthly minimum payment, that would've meant Mr K was also paying around £330 a month towards his existing credit cards.

I also think it's fair to note the Open Banking data Abound used showed Mr K's outgoings were highly variable. In the six months before Mr K's application, his outgoings were recorded as £1,462 at their lowest point to £2,575 at their highest. In my view, that should've caused Abound to consider whether Mr K was in a stable financial position – able to sustainably afford new loan repayments. Whilst I'm aware Abound used the Open Banking data in addition to other information, in my view it should've done more to get a clearer picture of Mr K's circumstances before deciding whether to proceed.

One option would've been to supplement the Open Banking data by asking Mr K for his bank statements which show the specific income and outgoings for the preceding months. In response to the investigator, Mr K forwarded his bank statements. I've looked at them to get a clearer picture of his circumstances before applying to Abound. I've looked at Mr K's regular outgoings taken by direct debit each month as a starting point. Between October and December 2023, they averaged £2,683. The direct debits covered items like Mr K's rent, utilities, phone bill and existing debts. Mr K's standard monthly income was £2,911 a month, although I can see he received a bonus in December 2023 so received £5,111. And while I can see Mr K received a bonus, he appears to have used the additional income to help reduce a credit card balance. I'm satisfied Mr K's regular income was £2,911 a month. That would've left Mr K with around £228 a month to cover his remaining outgoings for items like food and fuel as well as everyday spending. In my view, that's not a reasonable disposable income, especially given the new Abound loan payment came to £270.66, potentially leaving Mr K with a negative disposable income.

I also think it's reasonable to note Mr K's bank statement show he was using his credit card to top up his current account balance each month. Borrowing money from a credit card to support everyday spending from his current account indicates Mr K was already overcommitted and unlikely to be able to sustainably make new loan payments to Abound.

In my view, a more detailed approach to Mr K's application, like reviewing his bank statements, would most likely have shown he was already at or over capacity in terms of his outgoings and unlikely to be able to afford a new loan. Based on the evidence I've seen so

far, I haven't been persuaded Abound lent responsibly when it approved Mr K's loan. As a result, I intend to uphold Mr K's complaint and direct Abound to refund all interest, fees and charges applied from the date of approval.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr K 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.

I invited both parties to respond with any additional comments, information or evidence they wanted me to consider before I made my final decision. Mr K confirmed he was willing to accept.

Abound provided a detailed explanation of how it had approached Mr K's application and additional information concerning the level and nature of the checks it completed.

Abound said it had reviewed 15 months of Mr K's bank statements in digital format and used those to get a clear picture of his circumstances. Abound confirmed its review included a validation of Mr K's income and core spending as well as financial commitments. Abound says it had access to information that was in line with the full bank statements Mr K is issued. In addition, Abound disagreed with the outgoings figure reached in the provisional decision and provided analysis that says Mr K's outgoings were closer to £2,220 on average each month.

Abound said it had disregarded payments Mr K made to a credit card I'll refer to as F that I talked about in the provisional decision. Abound provided further background on how that credit card works and differs from traditional credit cards. Abound said Mr K had repaid the F credit card balance in December 2023 following his income bonus so there was no reason to include it in the affordability checks it completed.

Abound added its debt consolidation loan should've saved Mr K at least £118 a month. Abound said that Mr K should've had £562 available each month after consolidating other debts and covering his new loan payment.

Abound provided further information about the way the F credit card Mr K had worked. Abound said it wasn't a traditional credit card and allowed customers to flex payments made from their current account up to two weeks later by transferring them to a buy now pay later arrangement. Abound explained the reference to credits from the F credit card on Mr K's bank statements didn't represent cash advances or direct transfers from his bank account.

I recently asked Mr K to supply the F credit card statements to get a clearer picture of how he was using the account. I also asked Mr K to provide a copy of his credit file to help me get a better understanding of his circumstances.

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'd like to thank both parties for their patience while Mr K's complaint has been with us. I think it's fair to say that Abound's response to my provisional decision contains more information and detailed explanations about the way it considered Mr K's application in January 2024 than the information it provided within the original file submission. That's

meant I needed to go back to Mr K for some additional information and reconsider his complaint.

Abound has explained it obtained Mr K's banking history for a 15 month period before his loan application via Open Banking. Abound says it took Mr K's existing credit commitments into account and also looked at his core spending on items like food, fuel and other regular living expenses. Abound's analysis shows it reached the conclusion Mr K's outgoings at the point of application on 21 January 2024 were £462 lower than the figure I reached in my provisional decision.

Abound also provided details of how the F credit card works. I can see that the F credit card allows Mr K to highlight payments he's made using his current account and transfer, or flex, them over to his credit card. Essentially, it turns payments Mr K made from his bank account into an something like to buy now pay later credit. I accept the various credits on Mr K's bank statement relate to payments he transferred to his credit card, not money or direct funds he transferred.

Looking at the available information, it appears the difference between the outgoings figure I reached in the provisional decision and the figure Abound has provided comes down whether Mr K's F credit card payments were taken into account. Abound has explained that it obtained Mr K's bank statements via Open Banking that were up to date on 21 January 2024. Abound says the F credit card balance was cleared by Mr K *before* his application was made. As the account had a £0 balance at the point of application, Abound says it didn't take repayments into account when considering Mr K's loan application. This is new information that wasn't provided within the original file submission. But it does ultimately make a difference to the outcome of Mr K's complaint.

I've looked at the available information to see whether I agree with what Abound says. I can see that Mr K made regular monthly payments to the F credit card in October, November and December 2023 (including a £2,200 overpayment in December 2023). If Mr K then cleared the remaining balance before applying for his loan on 21 January 2024, I agree with Abound it would've then been reasonable to disregard those payments from the lending assessment it completed.

Mr K has sent us his bank statements for January 2024 and I can see he made a payment of £1,791 to his F credit card on 22 January 2024. I also note Mr K's credit file results Abound obtained showed he had an outstanding balance of £1,464 on his F credit card at the point of application. And the credit file Mr K has supplied also shows he had an outstanding balance in January 2024. The evidence available doesn't support the claim that Mr K's F credit card had already been repaid before he made his application on 21 January 2024. As a result, I think it's reasonable to include his monthly payments when considering the affordability of the loan.

I appreciate Mr K used part of the loan funds to repay the F credit card, but I've seen no evidence that Abound was aware of how he intended to use the loan funds while considering his application. And whilst the F credit card balance remained at £0 for some months, Mr K then started to use the account again and rebuilt the outstanding balance.

I've relooked at the Mr K's bank statements for the preceding three months and recompleted the income and expenditure assessment. I found Mr K's regular outgoings collected by direct debit and automated payments for items including his overdraft fees, roadside assistance, loans, television subscription, insurance, utilities, rent, loans, credit card, mobile phone, tv licence, council tax, account fee and gym membership came to an average of £2,767 a month in the three months before he applied. Mr K earned £2,916 in October and November 2023 and £5,711 in December 2023 due to a bonus. I've already explained why I'm using Mr

K's regular monthly income, not his bonus payment, when looking at his complaint. Having recompleted the income and expenditure assessment, it appears Mr K had an average of £149 remaining each month to cover items like food, fuel and regular living expenses.

Even if I were to accept Abound's view that the new loan would save him around £118 a month by consolidating other debts, I that would leave Mr K with £267 a month to cover all food, fuel and other living expenses. Abound's response to my provisional decision says Mr K's regular outgoings for food and fuel came to an average of £179.34 a month. That means, Mr K would've had less than £100 available to cover his remaining living expenses and any other unexpected or emergency outgoings. I'm not persuaded that's sufficient to sustainably make repayments over the term of the loan. In my view, the information available to Abound when Mr K applied for his loan should've shown he was already at or over capacity in terms of his existing outgoings and unlikely to be able to sustainably support a new loan.

Having reconsidered the original information provided by both parties and Abound's response to my provisional decision, I haven't been persuaded to change the conclusions I previously reached. I still think Mr K's complaint should be upheld.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr K 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.

My final decision

My decision is that I uphold Mr K's complaint and direct Fintern Ltd trading as Abound to settle as follows:

Add up the total amount of money Mr K received as a result of having been given the loan. The repayments Mr K made should be deducted from this amount.

- a- If this results in Mr K having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
- b- If any capital balance remains outstanding, then Abound should arrange an affordable and suitable payment plan with Mr K.

† HM Revenue & Customs requires Abound to take off tax from this interest. Abound must give Mr K a certificate showing how much tax it's taken off if they ask for one.

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

Marco Manente
Ombudsman