DRN-5682905

The complaint

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

What happened

Mr B took out a guarantor loan from UK Credit in October 2017. It was for £2,000 over 48 months. The monthly repayment was £102.64. It was given on the basis that Mr B had a guarantor who would be responsible for the repayments if Mr B failed to make them.

Mr B says the loan was unaffordable for him and effective checks would have shown this. UK Credit says it carried out adequate checks that showed Mr B could afford the loan.

Our investigator upheld Mr B's complaint. He said UK Credit's checks were proportionate, but it did not make a fair lending decision based on the information it gathered.

UK Credit disagreed saying, in summary, as this service knows it lends to customers who will have some signs of previous financial difficulties. And a credit check is only part of the lending assessment. Mr B's credit file improved after the loan: there is no evidence of financial struggle in the year after the loan was granted. Whilst Mr B may have experienced some financial difficulties historically, he used this loan to repair his credit profile and improve his financial situation.

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 B. 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 B 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. UK Credit had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr B. 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 B. 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 UK Credit did what it needed to before agreeing to lend to Mr B, and have considered the following questions:

- did UK Credit complete reasonable and proportionate checks when assessing Mr B'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 B 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 and discussed this data with him. It checked his credit file to understand his credit history and existing debts. It asked about the purpose which was debt consolidation. From these checks combined UK Credit concluded Mr B would have sufficient monthly disposable income after making the repayment and so the loan was affordable.

I think these checks were proportionate given the loan size and the stage in the lending relationship. But I don't find UK Credit made a fair lending decision based on the information it gathered. I'll explain why.

Mr B declared a net monthly income of £3,190 that UK Credit successfully verified. Mr B declared his housing and living costs to be £842 and UK Credit calculated his existing credit costs to be £1,848. Prior to any savings Mr B would make from consolidating other debts, this meant he would have monthly disposable income of £397.28 after taking on this loan. So I can see the loan seemed affordable on a pounds and pence basis

However UK Credit also needed to check the loan was sustainably affordable, that is that Mr B could repay it without borrowing further and that there would not be any adverse financial consequences for Mr B. I think the credit check showed Mr B was having financial difficulties at that time – not that he had previously had issues as UK Credit says. One loan was two months in arrears, another six months. In terms of more historic information, he had four defaults on his file, the most recent was from 18 months ago and he had a CCJ from 27 months ago. The debts were not settled – Mr B had £3,305 of defaulted debt still to repay, and his file showed the judgement had a balance of £872 although I note Mr B said he had just repaid this.

This meant Mr B was spending £1,848 on his existing credit commitments. This was a significant portion of his income – 57%. As the industry knows, such a high level can be an indicator of pending financial difficulties. Mr B told UK Credit he intended to repay one existing loan in full and one in part to reduce the term. But that would make very little difference to his monthly commitments - £100 on the loan he was settling in full but no significant reduction on the one he was reducing the term on. And so I think UK Credit needed to be concerned that Mr B would not be able to sustain spending at least 50% of his income on credit over the 48-month term.

It follows I think UK Credit was wrong to lend to Mr B. It argues that we are aware that, as a sub-prime lender, it provides loans to people with 'signs of previous financial difficulties. But I think here there were signs of current financial difficulties as Mr B was already failing to meet his existing contractual commitments with two active agreements in arrears – and it was clear there was a risk this could continue given the level of his monthly credit commitments relative to his income.

UK Credit has also defended its lending decision by looking at what happened after Mr B took out the loan. But we review whether it made a fair decision based on the information available at point of sale – we are not looking to use facts that it could not know at the time to retrospectively justify the decision.

Putting things right

It is fair that Mr B repay the capital as he had the benefit of that money, but it is not fair he pays fees and charges on a loan he should not have been given.

So, UK Credit must now:

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

a) If this results in Mr B 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 UK Credit should try to arrange an affordable payment plan with Mr B.
c) Remove any adverse information in relation to this loan from Mr B's credit file once any outstanding capital balance has been repaid in full.

*HM Revenue & Customs requires UK Credit Limited to take off tax from this interest. UK Credit must give Mr B a certificate showing how much tax it's taken off if he asks for one.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr B 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

I am upholding Mr B's complaint. UK Credit Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 23 October 2025.

Rebecca Connelley
Ombudsman