

Complaint

Miss P has complained that Fairscore Ltd (trading as “Updraft”) provided her with an unaffordable loan bearing in mind her existing debts.

Background

Updraft provided Miss P with a loan for £7,000.00 in November 2024. This loan had an APR of 18.9% and a 60-month term. This all meant the total amount repayable of £11,197.80, which included interest, fees and charges of £4,197.80, was due to be repaid in 60 monthly instalments of £186.63.

Miss P had previously successfully applied for a loan from Updraft in May 2023. This loan was settled early and hasn’t formed part of Miss P’s complaint. So we’ve not looked into the complaint about that loan and this decision is only looking at whether Updraft acted fairly and reasonably towards Miss P when lending to her in November 2024.

One of our investigators looked at Miss P’s complaint and thought that Updraft unfairly provided this loan to her as proportionate checks would have shown it was unaffordable.

Updraft disagreed with our investigator and asked for an ombudsman to review the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Miss P’s complaint.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss P’s complaint. These two questions are:

1. Did Updraft complete reasonable and proportionate checks to satisfy itself that Miss P would be able to repay her loan in a sustainable way?
 - o If so, did it make a fair lending decision?
 - o If not, would those checks have shown that Miss P would’ve been able to do so?

2. Did Updraft act unfairly or unreasonably in some other way?

Did Updraft complete reasonable and proportionate checks to satisfy itself that Miss P would be able to repay her loan in a sustainable way?

Updraft provided this loan while it was authorised and regulated by the Financial Conduct Authority (“FCA”). The rules and regulations in place required Updraft to carry out a reasonable and proportionate assessment of Miss P’s ability to make the repayments under these agreements. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so Updraft had to think about whether repaying the loan would cause significant adverse consequences *for Miss P*. In practice this meant that Updraft had to ensure that making the payments to the loan wouldn’t cause Miss P undue difficulty or adverse consequences.

In other words, it wasn’t enough for Updraft to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss P. Checks also had to be “proportionate” to the specific circumstances of the loan application.

In general, what constitutes 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 / cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

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 loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period); and
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

I’ve carefully thought about all of the relevant factors in this case.

Were Updraft’s checks reasonable and proportionate?

Updraft says that it carried out an income and expenditure assessment with Miss P prior to providing her with her loan. It also carried out credit checks. Updraft has said that it concluded that Miss P’s income was around £2,900.00 and her expenditure was approaching £2,200.00. This left Miss P with enough to cover the payments to this loan.

I've carefully considered what Updraft has said. Updraft has placed importance of this loan being taken out for consolidation purposes. However, this wasn't the first loan that Miss P had taken with Updraft for consolidation purposes. Updraft has said that Miss P owed less than she did after the first consolidation loan.

But Updraft was providing for a higher amount in circumstances where Miss P would be left with an unsecured debt to income ratio in excess of 100%. I agree that a customer does not have to consolidate all of their existing borrowing into a single loan in order to benefit from a consolidation loan. Nonetheless, I do think that there has to be a reasonable belief that a consolidation loan will help as well as a clear idea of what debt will be consolidated with any funds.

With this in mind, while Updraft has referred to Miss P being able to consolidate her credit cards and overdraft, I can't see anything to indicate that it had an understanding of which of Miss P's existing debts were going to be consolidated. Indeed, Updraft's final response states that this loan was provided to consolidate many loans and its later communications to us has referred to Miss P's credit cards and overdraft. But in truth, I have little confidence that it knew what debt could or was likely to be consolidated by Miss P at the time of this application.

In these circumstances, it's unclear to me how this loan was going to improve Miss P's financial position, particularly as this wasn't her first Updraft consolidation loan. Equally, while Updraft had placed great weight on the fact that Miss P's first Updraft loan was repaid early, it doesn't require too much of a detailed analysis to see that Miss P had repaid the first loan as a result of borrowing elsewhere. I don't think a first consolidation loan being repaid with borrowed funds is evidence of a strong repayment strategy, or that it is itself evidence that it was reasonable to provide a further consolidation loan.

I note that Updraft accepts that Miss P had a high debt-to-income ratio. I agree that this in itself doesn't mean that it ought to have carried out further checks. Nonetheless, given this was combined with this Updraft loan being for a larger amount than her previous one and this wasn't Miss P's first consolidation loan, I think that Updraft needed to take further steps to verify Miss P's actual monthly expenditure.

As I can't see that this Updraft did do this, I don't think that the checks it carried out before providing Miss P with this loan were reasonable and proportionate.

Would reasonable and proportionate checks have indicated to Updraft that Miss P would have been unable to repay her loan?

As reasonable and proportionate checks weren't carried out before this loan was provided, I can't say for sure what they would've shown. So I need to decide whether it is more likely than not that a proportionate check would have told Updraft that Miss P would have been unable to sustainably repay this loan.

Updraft was required to establish whether Miss P could make her loan repayments without experiencing significant adverse consequences. As Updraft itself has pointed out this is more than simply considering whether the loan payments were technically affordable on a strict pounds and pence calculation.

I've carefully considered the information provided. I accept that Miss P didn't have any defaulted accounts or county court judgments recorded against her. But it's clear that Miss P had avoided this as a result of a significant history of borrowing further in order to repay previous credit. The regulator's rules and guidance clearly set out that a lender shouldn't consider this a reasonable repayment strategy. Therefore, the fact that Miss P may have

repaid her previous Updraft loan, which was for a lower amount, with further borrowed funds, does not persuade me that it was reasonable to lend.

Furthermore, a deeper look into Miss P's financial circumstances, show that her expenditure was higher than what Updraft believed it to be. Updraft's checks had already led it to conclude that Miss P's income may have been less than what she had declared too. Miss P may have told Updraft that her expenditure was lower. But this was in circumstances where it appears as though Updraft's own checks led it to consider that Miss P's declaration may not have been accurate.

I think that proportionate checks would more likely than not have shown Updraft that Miss P was in a situation where she was borrowing more when her other commitments were increasing. In these circumstances, I think that she was unlikely to be able to make her payments without borrowing further or suffering significant adverse consequences.

For the sake of completeness, the fact that Miss P chose to proceed with an application for £7,000.00 when Updraft was prepared to lend her £15,000.00, doesn't persuade me that this loan was affordable. The fact that Updraft may have been prepared to provide Miss P with a loan that was even more unaffordable for her, does not demonstrate that she could make the repayments to this loan.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Miss P would not have been able to make the repayments to this loan without borrowing further and/or suffering undue difficulty. And, in these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted Updraft to the fact that it shouldn't have lent to Miss P.

Did Updraft act unfairly or unreasonably towards Miss P in some other way?

I've carefully thought about everything provided. And having done so, I've not seen anything to suggest that Updraft acted unfairly or unreasonably towards Miss P in some other way. So I don't think Updraft acted unfairly or unreasonably towards Miss P in some other way.

Did Miss P lose out as a result of Updraft unfairly providing her with this loan?

As Miss P paid (and at the time of her complaint at least was still being expected to pay) interest and charges on a loan that she shouldn't have been provided with, I'm satisfied that she has lost out as a result of what Updraft did wrong.

So I think that Updraft needs to put things right.

In reaching my conclusions I've also considered whether the lending relationship between Updraft and Miss P might have been unfair to Miss P under section 140A of the Consumer Credit Act 1974.

However, I'm satisfied that my direction below results in fair compensation for Miss P given the overall circumstances of her complaint. I'm also currently satisfied that, based on what I've seen, no additional award is appropriate in this case.

Fair compensation – what Updraft needs to do to put things right for Miss P

Having thought about everything, I think that Updraft should put things right for Miss P by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Miss P made should be deducted from the new starting balance – the

£7,000.00 originally lent. If Miss P has already repaid more than £7,000.00 then Updraft should treat any extra as overpayments. And any overpayments should be refunded to Miss P;

- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Miss P to the date of settlement†;
- if no outstanding balance remains after all adjustments have been made, any and all adverse information Updraft may have recorded about this loan should be removed from Miss P's credit file.

† HM Revenue & Customs requires Updraft to take off tax from this interest. Updraft must give Miss P a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Miss P's complaint. Fairscore Ltd needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 16 February 2026.

Jeshen Narayanan
Ombudsman