Financial Ombudsman Service

complaint

Mr H says Valour Finance Limited (trading as Savvy.co.uk) irresponsibly lent to him.

background

This complaint is about four instalment loans Valour Finance provided to Mr H between June 2016 and July 2018. Mr H's lending history is as follows:

- Loan one taken on 9 June 2016 for £650 to be repaid in 12 monthly instalments of £108.33. This loan was repaid early after three months.
- Loan two taken on 22 September 2016 for £300 to be repaid in 12 monthly instalments of £50. This loan was repaid early after four months.
- Loan three taken on 11 April 2018 for £750 to be repaid in 12 monthly instalments of £124.99. This loan was repaid early after two weeks.
- Loan four taken on 6 July 2018 for £750 to be repaid in 12 monthly instalments of £124.99. From what I can see this loan had a balance outstanding when Mr H brought his complaint to us but he's continued to make his repayments since then.

The gap between loans two and three is significant and so the loans should be treated as two chains of borrowing.

Our adjudicator upheld Mr H's complaint in part and thought the loans from loan two onwards shouldn't have been given. Valour Finance disagreed and the complaint was passed to me for a final decision.

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Valour Finance needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr H could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Valour Finance should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- 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 *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 even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Valour Finance was required to establish whether Mr H could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr H's complaint.

Valour Finance asked Mr H for his monthly income, which he said was between around £2,700 and £3,000. Mr H said his monthly outgoings ranged between £2,400 and £2,500. Valour Finance discussed the applications with Mr H. I can see that Mr H told it that the purpose of loan one was for car repairs and to consolidate debts for other short-term loans. It saw that he had two other short-terms at the time.

So, for loan one, given the loan amount, what was apparent about Mr H's circumstances at the time and his history with Valour Finance, I don't think it would've been proportionate to ask him for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mr H provided or the information Valour Finance should've been aware of, which meant it would've been proportionate to start verifying what Mr H was saying. So I can't say it was wrong to have approved loan one.

I can see that Valour Finance conducted detailed affordability checks for the rest of Mr H's loans. But as our adjudicator explained, proportionate checks for loans two and three would most likely have shown there was significant evidence that Mr H was having problems managing his money:

- He had several other active short-term loans when these loans were taken out (at least four for loan two and at least six for loan three) and Valour Finance was, or should have been, reasonably aware of these;

- Valour Finance had declined a further loan six months before it approved loan three because of the extent of Mr H's credit activity and so this should have prompted further questions for loan three;

And so it was unlikely Mr H would have been able to sustainably repay loans two and three and any subsequent loans. So I'm upholding the complaint about loans two to four and Valour Finance should put things right.

putting things right – what Valour Finance needs to do

- refund all interest and charges Mr H paid on loans two to four;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- if a balance of principal remains outstanding for loan four, then this refund should be offset against that and the remainder paid to Mr H;
- remove any negative information about loans two to four from Mr H's credit file;

† HM Revenue & Customs requires Valour Finance to take off tax from this interest. Valour Finance must Mr H a certificate showing how much tax it's taken off if he asks for one.

my final decision

For the reasons given above, I'm partially upholding Mr H's complaint. Valour Finance Limited (trading as Savvy.co.uk) should pay Mr H compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 7 September 2019.

Phillip Berechree
ombudsman