Complaint

Mr L says Oakbrook Finance Limited, trading as Likely Loans, shouldn't have lent him money in 2018.

Background

In October 2018, Mr L borrowed £3,600 from Likely Loans. He would repay this amount, with interest, over 36 months at a monthly cost of £190.16. The total amount repayable over the full term of the loan was £6,845.76.

Mr L says Likely Loans acted irresponsibly by lending him the money. He says that at the time of the loan application, he had a number of short-term loans and a loan with another provider which he was struggling to repay. He also says he had a gambling addiction and a history of poor credit, which Likely Loans would have realised had it carried out adequate checks.

Our adjudicator looked into Mr L's complaint. She felt that, based on what she'd seen, she didn't think Likely Loans had carried out proportionate checks before it lent Mr L the money. She didn't, however, conclude that Likely Loans was wrong to lend Mr L the money, as the available evidence demonstrated that it was more likely than not that the loan repayments were affordable and sustainable.

Mr L didn't agree. So, the complaint has been referred to me to decide.

My findings

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

In considering what is fair and reasonable I have taken into account relevant law and regulations; regulators' rules, guidance and standards; codes of practice; and what I consider to have been good industry practice at the time. Taking all of this into account, I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstance of this complaint are:

- Did Likely Loans complete reasonable and proportionate checks to satisfy itself that Mr L would be able repay the loan in a sustainable way? If not, would those checks have shown that Mr L would have been able to do so?

- Did Likely Loans act unfairly or unreasonably in some other way?

If I determine that Likely Loans did not act fairly and reasonably in its dealings with Mr L and that he has lost out as a result, I will go on to consider what is fair compensation.

Did Likely Loans, complete reasonable and proportionate checks to satisfy itself that Mr L would be able to repay his loan in a sustainable way?

The regulations in place when Likely Loans lent to Mr L required it to carry out a reasonable assessment of whether Mr L could afford to repay his loan in a sustainable manner. This is sometimes referred to as an "affordability assessment" or an "affordability check".

The affordability check should have been "borrower-focused" – so Likely Loans had to think about whether repaying the loan sustainably would cause financial difficulties or adverse consequences for Mr L. In other words, it wasn't enough for Likely Loans to only think about the likelihood that it would get its money back without considering the impact of the loan repayments on Mr L himself.

The checks Likely Loans carried out also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will depend on a number of factors including, the particular circumstances of the borrower and the amount, type and cost of credit they are applying for. Even for the same customer, a proportionate check will more likely than not look different for different loan applications.

In light of that, I think reasonable and proportionate checks should generally be more thorough:

- the lower a customer's income (as it could be harder to make any loan repayments from a lower income);
- the higher the amount to be repaid (as it could be harder to meet a higher repayments from a given income);
- the longer the term of the loan (as the total cost of the loan is likely to be greater and the customer is required to make payments for an extended period).

I've carefully considered what reasonable and proportionate checks should have looked like when Likely Loans was in the process of approving the loan for Mr L. And I've thought carefully about what checks Likely Loans says it did and whether those were proportionate in the circumstances.

Having considered the available information, I'm not satisfied the checks carried out by Likely Loans were reasonable and proportionate when assessing Mr L's ability to repay the loan in a sustainable manner. I'll explain why.

Likely Loans believes the affordability checks it carried out when Mr L applied for the loan were sufficient. In support of this, it's sent me copies of the information it relied on when deciding to lend Mr L the money. This included copies of the loan agreement and a summary of the information Mr L provided when he applied for the loan. Likely Loans also sent me a copy of Mr L's credit file, which appears to have been generated after Mr L applied for the loan – in December 2018.

Having thought about what Likely Loans has said about the checks it carried out, I don't think they were proportionate in the circumstances of this complaint. I say this because, Mr L was borrowing a large sum of money over long period of time – 36 months. As a result, I would have expected Likely Loans to carry out an income and expenditure assessment, to ensure that Mr L had sufficient disposable income to repay the loan in a sustainable manner.

Would proportionate checks on this loan have indicated to Likely Loans that Mr L would have been unable to repay his loans in a sustainable manner?

I don't think proportionate checks were carried out, so I need to decide whether it is more likely than not that a proportionate check would have indicated that it was unfair for Likely Loans to lend Mr L the money – given his financial circumstances at the time.

In order to gain a better understanding of Mr L's financial situation at the time he applied for the loan, I've had a look at his bank statements for the period September and October 2018. These show that Mr L had started a new job and was earning a net salary of £3,500 a month. These statements also show that in September 2018, Mr L was paying around £1,500 in respect of rent, bills, a car loan and an unsecured loan with his bank. I can also see he transferred around £900 to his partner using the reference *"[partner] bills"*. By my calculations, this would have left Mr L with around £1,100 disposable income each month.

Mr L has told us that at the time he applied for this loan, he was struggling to repay an existing loan with another provider. He also says he was relying on short-term loans and had a gambling addiction which was causing financial hardship.

Looking at Mr L's bank statements for the period 1 September to 28 October 2018, I can't see any credits from any short-term lenders. I can, however, see that Mr L successfully applied for a number of short-term loans after he applied for this loan. I also can't see anything on Mr L's credit report which shows he was reliant on short-term loans in the weeks prior to this loan application, or that he had another loan which he was struggling to repay.

I've also considered what Mr L has said about his gambling addiction. While I can see a significant number of gambling transactions after he applied for this loan, I don't think the gambling activity on his bank statements in the weeks before this loan application, would have alerted Likely Loans to the fact that Mr L was spending a disproportionate amount of his income on gambling. Looking at the transactions on his bank statements for the period 1 September to 28 October 2018, the gambling activity appears limited to seven transactions, most of which took place after Mr L appears to have won some money. The remaining transactions all took place after Mr L had been paid his salary and at a time when he had reasonable amount of money in his account.

While I don't doubt what Mr L has told us about his gambling addiction – and I accept that there were a significant amount of gambling transactions on Mr L's bank statements following this loan – I don't think Mr L's bank statements for the weeks leading up to this loan application, would have made Likely Loans question whether it was right to lend Mr L the money.

In addition to reviewing Mr L's bank statements, I've also considered whether there was anything within Mr L's credit report which would have alerted Likely Loans to the fact that the loan repayments weren't affordable in a sustainable way. Based on what I've seen, I don't think there was.

According to the available credit report, Mr L owed around £3,905 to his existing creditors. The credit report also shows that Mr L wasn't behind on the repayments of any of his existing credit commitments in the years prior to this loan application.

While Mr L's credit file shows that he defaulted on a short-term loan in late 2013, I don't think this means that Likely Loans was wrong to lend him the money. I accept that Mr L had previously been in an individual voluntary arrangement many years before he applied for this loan, but it looks like Mr L's financial situation had improved significantly over the years. So in the circumstances of this case I think that even if Likely Loans had been aware of the default and individual voluntary arrangement it wouldn't have been an unreasonable decision to approve Mr L's loan application.

I accept that different checks may show different things, but I haven't seen anything persuasive to suggest that the loan repayments weren't affordable in a sustainable manner at the time Mr L applied for this loan.

Did Likely Loans act unfairly or unreasonably in some other way?

Having carefully thought about everything, I've not seen anything to suggest that Likely Loans acted unfairly or unreasonably towards Mr L in some other way.

Overall and having carefully thought about the two overarching questions, set out on pages two and three of this decision, I don't think that Likely Loans acted unfairly or unreasonably when deciding to lend Mr L the money. As a result, I don't think Mr L has lost out because of anything that Likely Loans did wrong.

My final decision

For the reasons above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to Mr L to accept or reject my decision before 6 April 2020.

Margaux Stride-Noble
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