

complaint

Miss M says Gain Credit LLC trading as Drafty lent to her irresponsibly. She says whilst she borrowed a significant amount, because of the high interest charged, she is unable to reduce the balance. She says she needs Drafty to freeze the interest so she can repay the loan.

background

This complaint is about one running credit account Drafty provided to Miss M in June 2018. This was an arrangement where Miss M could withdraw up to an agreed credit limit. She would need to repay a minimum of 2% of the outstanding balance each month plus any accrued interest or charges.

The arrangement had an initial credit limit of £800. Miss M withdrew up to this amount almost straight away. She remained at, or close to, the credit limit for much of the remainder of the life of the account. Miss M made her last withdrawal on September 2018.

Miss M continued to make payments into the account and, as she says, she was unable to make inroads into what she owed. She was largely only paying the interest charged on the amount she had borrowed.

In May 2019 Miss M informed Drafty that she was in financial difficulty and she would have problems making any repayments. From what I can see Drafty, and Miss M, were unable to agree a repayment plan. The account was placed in default in June 2019 and I understand there is still an outstanding balance

Our adjudicator partially upheld the complaint. He thought Drafty's decision to approve the initial lending was reasonable. But he also said that Drafty shouldn't have charged any interest on the account from May 2019 onwards as Miss M had informed it that she was in financial difficulty.

Miss M disagreed with the adjudicator's opinion. She thought that all of the lending was irresponsible and the amount of interest she paid overall was unfair.

my findings

We've set out our general approach to complaints about irresponsible lending – including all of the relevant rules, guidance and good industry practice – on our website. Broadly speaking, this all means that Drafty needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice, this means it should have carried out proportionate checks to make sure Miss M could repay the account in a sustainable manner.

And Drafty needed to monitor the account on an ongoing basis to ensure that the use of it didn't make it reasonable to think that Miss M was in financial difficulty. The FCA guidance is set out in the Consumer Credit Sourcebook. Section 6.7.2R of the relevant guidance says: 'A firm must monitor a customer's repayment record and take appropriate action' were there are signs of actual or possible repayment difficulties.'

Applying this to the circumstances of this particular complaint, I have reached the same outcome as our adjudicator, for essentially the same reasons.

I've seen a record of the information Miss M provided when she completed her loan application. Miss M said she had a monthly income of around £2,000 and she had regular monthly outgoings of £650. So it would've been reasonable for Drafty to have assumed that the repayments if she drew down the full amount, which were shown to be just short of £90 a month at outset, would've seemed affordable for her.

I haven't seen any further information that shows its likely Drafty was made aware of any financial problems Miss M might've been having. Or anything that would've prompted it to investigate Miss M's circumstances further. So I think it was reasonable for Drafty to rely on the information it obtained.

So overall, in these circumstances, I think the assessments Drafty did to before the lending were proportionate. And I think its decision to approve this lending was reasonable.

To be clear, I think Drafty was adhering to the terms of the contract when it applied the interest up to the point where Miss M informed it she was in financial difficulty. And it wasn't wrong to do this.

As our adjudicator said Miss M informed Drafty that she was in financial difficulty in May 2019. Drafty continued to add some interest after this time and it agrees that it shouldn't have done this. It has made an offer of compensation on this basis that any interest applied after this time will be removed from the outstanding balance. Having looked at the all of the correspondence about this complaint I agree that this is a reasonable way to resolve this issue. And so I agree with the offer Drafty has made.

putting things right – what Drafty needs to do

If Miss M accepts this decision then Drafty should implement the offer it has made to remove any interest added since May 2019 from her account.

Drafty should also try to agree an affordable repayment plan with Miss M. And I would remind Drafty of its obligation to treat Miss M positively and sympathetically.

my final decision

For the reasons I've explained, I partly uphold Miss M's complaint.

Gain Credit LLC should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I am required to ask Miss M to accept or reject my decision before 28 October 2020

Andy Burlinson
ombudsman