

## **complaint**

Mr C complains Indigo Michael Limited (trading as SafetyNetCredit) ("SNC") lent to him irresponsibly.

## **background**

Mr C entered a running account credit agreement with SNC in February 2016. This was an agreement with a £250 credit limit which allowed Mr C to transfer money to his bank account up to his credit limit, and then repay his balance according to the terms of the agreement he'd made with SNC.

These terms gave SNC read-only access to Mr C's bank account and allowed it to take repayments when it saw money entering this account through the use of a continuous payment authority on Mr C's debit card. The terms did not allow SNC to take repayments if they would cause Mr C's balance to fall below a certain level.

Over the course of Mr C's agreement with SNC, his credit limit was raised six times, ultimately reaching £1,000 on 26 October 2016. I understand Mr C stopped making repayments towards the account in that same month, although it's unclear what the status of the account is now.

Mr C complained to SNC that it had been wrong to lend to him. SNC disagreed and Mr C then referred his case to this service for an independent assessment. Two of our adjudicators considered Mr C's case. The most recent adjudicator said SNC shouldn't have given Mr C the facility. SNC didn't respond to our adjudicator's view so the case has been passed to me 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. I've taken into account the law along with any relevant regulatory guidance and good industry practice at the time.

The regulations in place at the time Mr C applied for his SNC account said, essentially, that SNC needed to carry out checks to satisfy itself that Mr C would be able to make the repayments expected of him in a sustainable way. The regulations were not prescriptive about exactly what these checks should involve, but explained that they should be proportionate to the circumstances.

SNC has said it carried out detailed checks before agreeing to open the account for Mr C. It's provided evidence that it considered the transactions on the bank account it had read-only access to from 11 January 2016 to 23 February 2016, along with carrying out a credit check. It also appears SNC asked Mr C what his monthly income was – and he'd said this was £1,700.

I think SNC gathered enough information to enable it to make an informed decision whether or not to lend to Mr C. In other words, I think its checks were proportionate. However, it's not enough for a lender simply to gather sufficient information – it needs to go on to interpret this information in a reasonable way. For reasons I will now explain, I think SNC failed to do this.

SNC used an automated system to analyse Mr C's account transactions. It's apparent from looking at how this system categorised Mr C's transactions, that it miscategorised a large number of transactions he'd made at bookmakers. The result of this was that at least £12,700 of such transactions were mistakenly given the category "shopping" during the range of dates SNC had considered. SNC's systems did correctly categorise £10,810 of betting transactions at other establishments as "gambling" between the same dates.

Given Mr C had said his income was £1,700 per month, I think a responsible lender would have been concerned about the high expenditure on the account – regardless of how this was categorised. The fact SNC *had* identified over £10,000 of Mr C's expenditure as gambling should in my view have heightened its concerns as this would be an unusually high spend on gambling for many people. In the circumstances I think SNC should have carried out a more thorough manual review of Mr C's account transactions.

Had SNC carried out such a review I think it would have discovered a number of things relevant to its decision to lend to Mr C.

The incorrect categorisation of Mr C's other betting would have come to light, and SNC would have found that Mr C's salary was about £1,650 per month – meaning he was spending more than 14 times his earned income on betting. It would also have discovered that, from 11 January 2016 to around 2 February 2016, Mr C had funded his betting through the use of savings, until it appears these savings were exhausted. It would have seen that after this point Mr C began to borrow from payday lenders to fund his betting activities, borrowing more than £4,400 in this way from the beginning of February 2016 to the point of his application to SNC.

This was all information that SNC had in its possession, but it didn't grasp its significance because it had failed to analyse it in a reasonable way. In light of the features of Mr C's financial situation which I've outlined above, I don't think any reasonable lender would have thought it was responsible to lend to him. It follows that I think SNC was wrong to grant him his account and should take action to put matters right.

### **putting things right**

SNC shouldn't have given Mr C his credit facility, so it's not right that he should have to pay interest, fees or charges in relation to this, although I think it's fair that he should pay back any principal he's borrowed. It would also be unfair if adverse information is recorded against the facility on Mr C's credit file. So I direct SNC to:

- A) Remove all interest, fees and charges from the account and treat all repayments made by Mr C as if they'd been repayments of the principal. If this results in Mr C having paid more than he borrowed, then any overpayments must be returned to him along with 8% simple interest\* calculated on the overpayments from the date they were made to the date they are returned to Mr C.
- B) If, after "A", a balance remains on the account for Mr C to repay then SNC should attempt to arrange an affordable repayment plan with him for that balance.
- C) Remove any adverse information it has recorded on Mr C's credit file in connection with the agreement, and record the account as "settled" once Mr C has repaid the principal he borrowed.

\*HM Revenue & Customs requires SNC to take tax off this interest. SNC must give Mr C a certificate showing how much tax it's taken off, if Mr C asks for one.

### **my final decision**

For the reasons explained above I uphold Mr C's complaint and direct Indigo Michael Limited to take the actions set out in the "putting things right" section of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 12 January 2019.

Will Culley  
**ombudsman**