

## The complaint

Mr M says Novaloans Ltd trading as cash4unow.co.uk irresponsibly lent to him.

## What happened

This complaint is about eight instalment loans Novaloans provided to Mr M between July 2017 and August 2018. Mr M borrowed amounts ranging between £100 and £650, to be repaid in three or four monthly instalments. There were no significant breaks between the loans and the repayments didn't overlap. Mr M repaid all his loans.

Our adjudicator upheld Mr M's complaint in part and thought the loans from loan four onwards shouldn't have been given. Novaloans disagreed and so the complaint was passed to me for a final decision.

## What I've decided – and why

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.

Novaloans 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 M 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 Novaloans 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 Novaloans was required to establish whether Mr M 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 M's complaint.

Novaloans asked Mr M for information about his income and expenditure. Mr M said his monthly income was between £1,350 and £1,500. He said his monthly outgoings were around £1,000. I think these checks went far enough for loans one to three.

For loans one to three, given the loan amounts, what was apparent about Mr M's circumstances at the time and his history with Novaloans, 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 M provided or the information Novaloans should've been aware of, which meant it would've been proportionate to start verifying what Mr M was saying.

These repayments for these three loans looked affordable for Mr M. So I can't say that Novaloans was wrong to have provided them.

But I think Novaloans should have made better checks from loan four onwards. I say this because Mr M was borrowing from Novaloans regularly. This was his fourth loan in eight months. And the amounts had increased from £100 to £350. His highest expected monthly repayment had increased from £42.52 to £137.73. So I think Novaloans should then have checked Mr M's finances and verified what he'd told it about his circumstances before lending again.

As our adjudicator explained, a proportionate check for loan four would most likely have shown that:

- Mr M had multiple loans outstanding with other short-term lenders and these were in arrears.
- Mr M was also in arrears for his utility bills.

So I think that if Novaloans had made better checks it would have seen, as I have, that Mr M was unable to sustainably repay loan four, or any subsequent loans.

I've also looked at the overall pattern of Novaloans' lending history with Mr M, with a view to seeing if there was a point at which Novaloans should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Novaloans should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr M's case, I think that this point was reached by loan six. I say this because by loan six the pattern of Mr M's borrowing showed that he was persistently reliant on short-term loans:

- Mr M had taken out six loans with terms of three or four months in less than a year.
- From loan six onwards Mr M was provided with a new loan within weeks of settling a previous one. So Novaloans ought to have realised it was more likely than not Mr M was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr M's indebtedness was increasing unsustainably.
- Mr M wasn't making any real inroads to the amount he owed Novaloans. Loan eight was taken out thirteen months after Mr M's first. And it was for a substantially larger amount. Mr M had paid large amounts of interest to, in effect, service a debt to Novaloans over an extended period.

I think that Mr M lost out because Novaloans continued to provide borrowing from loan six onwards because:

- these loans had the effect of unfairly prolonging Mr M's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- the sheer number of loans and deferrals was likely to have had negative implications on Mr M's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I'm upholding the complaint about loans four to eight and I think Novaloans should put things right.

### **Putting things right**

To put things right for Mr M, I require Novaloans to do the following:

- refund all interest and charges Mr M paid on loans four to eight;
- 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†;
- remove any negative information about loans four and five from Mr M's credit file;
- the number of loans taken from loan six onwards means any information recorded about them is adverse. So all entries about loans six to eight should be removed from Mr M's credit file.

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

### **My final decision**

For the reasons given above, my final decision is that I partially uphold Mr M's complaint. I require Novaloans Ltd trading as cash4unow.co.uk to carry out the actions and pay Mr M compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 October 2020.

Phillip Berechree  
**Ombudsman**