DRN-4217446

The complaint

Mr W has complained that Western Circle Ltd trading as Cashfloat ("Cashfloat") gave him a loan he couldn't afford to repay.

What happened

Mr W was advanced one loan of £1,500 on 14 October 2022. Mr W was due to make 8 monthly repayments of £314.40 followed by a final payment of £314.30. As of April 2023, an outstanding balance remains due.

Cashfloat wrote to Mr W in its final response letter and explained why it had carried out proportionate checks which showed the loan to be affordable. Unhappy with this response, Mr W referred the complaint to the Financial Ombudsman Service.

The complaint was considered by an investigator, and he didn't uphold it because he concluded that Cashfloat had carried out proportionate checks - which showed the loan to be affordable and so the repayments were sustainable for Mr W.

Mr W didn't agree with the findings saying he had 5 other loans outstanding at the time. No agreement could be reached and so the complaint has been passed to me for a 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 the relevant rules, guidance and good industry practice - on our website. And I've used that to help me decide this complaint.

When Mr W applied for the loan, Cashfloat had to assess the lending to check if Mr W could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Cashfloat's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr W's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Cashfloat should have done more to establish that any lending was sustainable for Mr W. These factors include:

- Mr W having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mr W having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);

- Mr W coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr W. The investigator didn't think this applied to Mr W's complaint and I would agree as there was only one loan.

Cashfloat was required to establish whether Mr W could *sustainably* repay the loan – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr W was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr W's complaint.

Before the loan was approved, Cashfloat recorded that Mr W worked full time and received a monthly salary of £2,000. Cashfloat says it asked for copy bank statements from Mr W at the time the loan was approved, and these showed his income was between £2,000 and £2,412 per month. To err on the side of caution, Cashfloat used the lower amount of £2,000 for its assessment and I think that was the fairest thing to do.

Cashfloat also made enquiries about his living costs, which Mr W declared to be £635 per month. It's worth noting here that Cashfloat says that it assessed Mr W's monthly expenditure using what it calls "*trigger values*" – taken from a well-known debt charity and these values take account of an applicant's job, location, homeowner status to name a few factors.

Having used these trigger values, it estimated Mr W's monthly outgoings were, at a maximum, likely to be £1,428 and, again to err on the side of caution, to that it added a further buffer of £200 – these were the figures used for Cashfloat's affordability assessment. Even using the larger monthly outgoings along with the buffer, there was still sufficient disposable income for Mr W to be able to afford the repayments for the loan.

I would add here that given the income that was used of £2,000 as well as the increased expenditure figure and buffer this only left, after the loan repayment was taken around £58 per month – which for 9 months isn't a particularly large amount. However, in this case, I think it was just about reasonable for Cashfloat to think the loan was affordable and I say this because it used the smaller of the income figures and it increased Mr W's outgoings as well as providing an additional buffer of £200. So, although, there was only a small amount left over, taking everything together, it would've looked like the loan was affordable.

It doesn't appear that Cashfloat carried out a credit search before these loans were approved. But there was no regulatory requirement to do one. So, the fact no credit search was likely conducted isn't a reason to solely uphold the complaint.

However, Cashfloat has said that as part of the affordability assessment it requested a bank statement from Mr W and it has provided a copy of it. I've therefore looked at the bank statement to see whether there were and indications of the loan being unaffordable or unsustainable for him.

Looking at the month before the loan was approved there wasn't any signs of financial difficulties or that Mr W was using funds for unsustainable purchases. I can see one of the loans that Mr W mentioned, in response to the assessment, where payments were made in August and September 2022 but none were made in October 2022. This could indicate the loan was likely repaid – or if not and Mr W had missed the payment this wouldn't have been apparent to Cashfloat from a review of the statements.

Based on the bank statements Cashfloat was aware of one active instalment payday loan and a high cost credit loan, but given the cost of these loans was around £295 per month this Cashfloat loan still looked affordable. If Mr W did have other active (payday) loans those weren't apparent in the bank statement Cashfloat had access to. I also don't think a review of the bank statement would've led Cashfloat to believe that Mr W couldn't afford the repayments he was committed to making.

Taking account of the lending relationship I think it was reasonable for Cashfloat to have relied on the information Mr W provided to it and the results of its own checks. There also wasn't anything to suggest that Mr W was having either current financial difficulties or to indicate the loan repayment would be unsustainable for him.

Taking everything into account, I do no not uphold Mr W's complaint. An outstanding balance may still be due and I would remind Cashfloat of its regulatory obligation to treat Mr W fairly and with forbearance if necessary.

My final decision

For the reasons I've outlined above, I am not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 1 February 2024.

Robert Walker
Ombudsman