

Complaint

Mr H has complained about a personal loan Fairscore Ltd (trading as “Updraft”) which he says was unfairly lent to him. He says he was lent to at a time when he was experiencing severe financial stress.

Background

Updraft provided Mr H with a loan for £3,500.00 in January 2022. This loan had an APR of 20.86% and the total amount to be repaid of £4,635.21, which included interest fees and charges of £1,135.21, was due to be repaid in 35 monthly instalments of £127.66 followed by a final instalment of £167.11

One of our investigators reviewed what Mr H and Updraft had told us. She thought that Updraft hadn't done anything wrong or treated Mr H unfairly when it provided this loan and so didn't recommend that the complaint be upheld. Mr H disagreed and asked for an ombudsman to review the complaint.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr H's complaint.

Having carefully considered everything, I'm not upholding Mr H's complaint. I'll explain why in a little more detail.

Updraft needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, what this means is that Updraft needed to carry out proportionate checks to be able to understand whether Mr H could afford to make his repayments before providing this loan.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to provide loans to a customer irresponsibly.

Updraft says it approved Mr H's application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit search it carried out which showed Mr H's existing commitments were relatively well maintained at the time – insofar as it showed no recent adverse data.

In Updraft's view all of the information it gathered showed that Mr H could afford to make the repayments he was committing to. On the other hand, Mr H has said he was already in difficulty and couldn't afford this loan.

I've carefully thought about what Mr H and Updraft have said.

As Updraft asked Mr H about his income and expenditure and also carried out a credit check, it's clear that Updraft did obtain a reasonable amount of information before it decided to proceed with Mr H's application.

Having looked at the credit check, it's clear that Mr H had some existing debts. However, while I accept that Mr H might not agree with this, I don't think that these were excessive in comparison to his income. And importantly there wasn't anything obvious – such as significant adverse credit markers or over indebtedness – showing on this.

It's also worth noting that the information from the time shows that Mr H said he was going to use the funds from this loan to reduce what he owed on his credit cards. I don't know whether Mr H did go on to do this. But Updraft could only make a reasonable decision based on the information it had available at the time.

It won't have known whether Mr H would still have the same balances on his credit cards and this loan outstanding – all it could do was take reasonable steps and rely on assurances from Mr H that the balances would be repaid with these funds. So I'm satisfied that the proceeds of this loan could and should have been used to clear Mr H's existing credit card balances.

And as this was a first loan Updraft was providing to Mr H, there wasn't a history of Mr H obtaining funds and then failing to consolidate debts elsewhere in the way he committed to either. So Updraft was reasonably entitled to believe that Mr H would be left in a better position after being provided with this loan.

I accept that Mr H's actual circumstances may not have been fully reflected either in the information he provided, or the information Updraft obtained. For example, Mr H says that he had missed payments on credit previously and was going through a difficult time. I'm sorry to hear this. But Updraft wouldn't have known about these matters and it can't be expected to have known either. In these circumstances, it was entitled to rely on its credit search. And I wouldn't expect it to second guess a credit search carried out with a reasonable credit reference agency.

Given the circumstances here, I think it would be reasonable to expect Updraft to have an idea of Mr H's income and committed non-discretionary spending, which it did here, rather than a complete review of Mr H's finances. Furthermore, Mr H hasn't provided anything which clearly demonstrates further checks would have shown the loan payments were clearly unaffordable either – particularly if he'd reduced his credit card balances in the way that he'd committed to.

Equally, it's only fair and reasonable for me to uphold a complaint in circumstances where a firm did something wrong. Given the circumstances here, and the lack of obvious inconsistencies, I don't think that reasonable and proportionate checks would have extended into the level of checks Mr H is suggesting. As this is the case, I don't think that Updraft did anything wrong when providing this loan to Mr H - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

So overall and having considered everything, I'm satisfied that Updraft didn't treat Mr H unfairly or unreasonably when lending to him. And I'm not upholding Mr H's complaint. I appreciate this is likely to be very disappointing for Mr H – as he clearly feels strongly about this matter. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

Although I'm not intending to uphold Mr H's complaint, I would remind Updraft of its obligation to exercise forbearance and due consideration should Mr H be experiencing difficulty and it choose to collect payments from him.

My final decision

For the reasons I've explained, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 5 January 2024.

Jeshen Narayanan
Ombudsman