

The complaint

Ms M complains that UK Credit Limited, trading as UK Credit, lent to her irresponsibly when it gave her a loan that she says she couldn't afford.

What happened

Ms M took out an unsecured loan of £5,500 with UK Credit in July 2014.

Ms M isn't specific in her complaint, but she intimates that UK Credit lent to her irresponsibly and unaffordably because it did not take reasonable steps to assess her ability to meet the repayments in a sustainable manner while still meeting other reasonable commitments.

Our investigator thought Ms M's complaint should be upheld. UK Credit disagreed, so the complaint was passed to me to make a decision.

When I reviewed the complaint, I came to a different conclusion to that of our investigator. I wrote to all parties to explain my thinking and to invite submission of further representations.

UK Credit confirmed that it accepted my decision. Ms M didn't respond. As Ms M didn't respond with anything which might have changed my mind, I see no reason to depart from my provisional findings.

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 unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Ms M's complaint.

UK Credit 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 Ms M could afford to repay what she was being lent in a sustainable manner.

Certain factors might point to the fact that UK Credit should fairly and reasonably have done more to establish that any lending was sustainable for Ms M. These factors include things like understanding Ms M's income, the total amount Ms M borrowed, her management of her existing credit and the length of time Ms M had been indebted. There is no prescriptive list of checks a business should do.

When Ms M applied for her loan she said that she wanted to pay off some payday loans and use the remaining funds for home improvements.

UK Credit looked at Ms M's financial circumstances. It conducted a credit search, the results of which it provided to me. It noted her outstanding borrowing and how much she was paying

for it each month. It also noted that she had made late payments on other credit. In particular, Ms M had taken a secured loan with UK Credit a few months before and she had missed two payments on that loan.

UK Credit conducted a detailed conversation with Ms M about her finances. UK Credit has provided its records of this.

UK Credit established that once Ms M had met all her essential expenditure, including her existing credit repayments and the proposed loan repayments, Ms M would be left with around £574 in disposable income each month. Ms M agreed that this was a reasonable assessment of her circumstances, having answered direct questions about her outgoings. Ms M confirmed that the loan was affordable for her and that she hadn't left out any information about outgoings.

Information about the payday loans was missing from her credit file. I don't know why that was – it may have been because they were taken so recently they had not yet been recorded. But Ms M told UK Credit about them, and UK Credit took into account that these would be paid off by the loan it offered. The loans were for £2,000 meaning that once they were paid off Ms M would have increased her existing credit by £3,500 – the sum left over from the proposed loan of £5,500.

Ms M was asked about her missed payments. She explained that she had problems with her car which had caused her a period of financial difficulty. She said that the issues were now sorted and would no longer be an issue. UK Credit was satisfied this was a plausible explanation given the timing of the previous missed payments. In addition, there was no evidence of defaults or CCJs on Ms M's credit file.

I reviewed Ms M's existing credit and concluded that for Ms M to sustainably repay all her outstanding credit her repayments ought to have been higher – in the region of £320 a month, rather than the £251 a month assessed by UK Credit. This would have brought down Ms M's disposable income to around £500 a month. But I think this was still sufficient for UK Credit to consider the loan to be affordable for Ms M.

Our investigator thought that Ms M was paying an unsustainably high percentage of her income in credit repayments. Even taking into account my assessment of Ms M's sustainable repayments, this would have been about 28% of her income each month, excluding her mortgage. UK Credit argues that this did not represent a concerning level of debt.

There is no specific percentage of borrowing repayments to income where the amount of credit becomes unsustainable. It should be viewed holistically with all the information a credit provider has. In the most general terms, someone paying more than 50% of their income towards credit repayments may well find repayments difficult to sustain, but this depends on many factors, such as overall level of income, period of indebtedness and so on.

In Ms M's case I don't think the percentage of her income she needed to pay to meet her credit obligations each month was so high that it alone was enough to make Credit UK think it shouldn't lend to Ms M. And I am satisfied that UK Credit conducted necessary and proportionate checks to establish that the lending was affordable. It had the benefit of Ms M's credit file, her verbal declaration and explanation of her financial circumstances (including her declaration of borrowing which wasn't visible on her credit file) and her payslips.

On this basis, I am satisfied UK Credit conducted necessary and proportionate checks and that it acted fairly on the outcome of those checks. This means I don't think Ms M lost out as a result of anything UK Credit did wrong.

My final decision

I do not think UK Credit Limited lent unaffordably to Ms M and I don't think Ms M lost out as a result of anything UK Credit Limited did wrong. So, I don't uphold Ms M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 8 January 2024.

Sally Allbeury
Ombudsman