

Complaint

Mrs T has complained about a personal loan Fairscore Ltd (trading as “Updraft”) which she says was unfairly lent to her. She says the loan was unaffordable as she already had numerous loans and credit cards which would have shown up on her credit file.

Background

Updraft provided Mrs T with a loan for £4,000.00 in March 2021. This loan had an APR of 25.73% and a 36-month term. This meant that the total amount to be repaid of £5,609.30, which included interest fees and charges of £1,609.30, was due to be repaid in 35 monthly instalments of £153.98 followed by a final instalment of £220.

One of our investigators reviewed what Mrs T and Updraft had told us. She thought that Updraft hadn’t done anything wrong or treated Mrs T unfairly when it provided this loan and so didn’t recommend that the complaint be upheld. Mrs T 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 Mrs T’s complaint.

Having carefully considered everything, I’m not upholding Mrs T’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 Mrs T could afford to make her 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 Mrs T’s application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked this against information on a credit search it carried out which showed Mrs T’s existing commitments were relatively

well maintained at the time – as far as it was concerned there was only an issue with a single payment and this had been addressed by Mrs T.

In Updraft's view all of the information it gathered showed that Mrs T could afford to make the repayments she was committing to. On the other hand, Mrs T has said she was already struggling with the debts she had and couldn't afford this loan.

I've carefully thought about what Mrs T and Updraft have said.

As Updraft asked Mrs T about her 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 Mrs T's application.

Having looked at the results of the credit check, it's clear that Mrs T had some existing debts. However, while I accept that Mrs T might not agree with this, I don't think that these were excessive in comparison to her income. Mrs T did have one account that was showing as being slightly over the limit and a single late payment. However, it looks like Mrs T was asked about this and she told Updraft that this was down to her husband having been on furlough during the pandemic and that he'd recently returned to work.

Furthermore, the information from the time shows that Mrs T said she was going to use the funds from this loan to reduce what she owed on her credit cards. I don't know whether Mrs T did go on to do this. But this would have addressed one of Mrs T's accounts being slightly over the limit.

Furthermore, Updraft could only make a reasonable decision based on the information it had available at the time. It won't have known whether Mrs T would still have the same balances on her credit cards – all it could do was take reasonable steps and rely on assurances from Mrs T 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 reduce Mrs T's existing credit card balances in the way that she committed to.

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

I accept that Mrs T's actual circumstances may not have been fully reflected either in the information she provided, or the information Updraft obtained. For example, she's provided a copy of her full credit file which indicates that there may have been other credit commitments that didn't show up on Updraft's credit search. But Updraft 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, I'd expect Updraft to have a reasonable idea of Mrs T's income and committed non-discretionary spending, which it did here, rather than a complete review of Mrs T's finances. Furthermore, Mrs T hasn't provided anything which clearly demonstrates further checks would have shown the loan payments were clearly unaffordable either – particularly if she'd reduced her credit card balances in the way that she'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 Mrs T is suggesting. As this is the case, I don't think that Updraft did

anything wrong when providing this loan to Mrs T - 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 Mrs T unfairly or unreasonably when lending to her. And I'm not upholding Mrs T's complaint. I appreciate this is likely to be very disappointing for Mrs T – as she clearly feels strongly about this matter. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mrs T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 4 December 2023.

Jeshen Narayanan
Ombudsman