

The complaint

Mr H complains through his representative that Novaloans Ltd lent to him irresponsibly.

What happened

Mr H took three loans and they are summarised here. Mr H took loan 3 a few days before registering with his representative that he wished to complain about irresponsible lending.

Loan	Date Taken	Amount	Date Repaid	Instalments
1	18/02/2021	£250	28/05/2021	4 x £90.22
2	16/06/2021	£300	30/09/2021	4 x £112.46
break in lending chain				
3	11/08/2022	£300	4 November 2022	6 x £93.34

Mr H informed Novaloans of the following:

Loan	Reported Income after tax	Reported Expenditure
1	£1,550.00	£561.00
2	£1,700.00	£704.00
3	£2,000.00	£1,005.00

After Mr H had complained in September 2022, Novaloans responded with its final response letter dated 10 October 2022 and it gave a detailed analysis of the information it had obtained from Mr H plus its own research into Mr H's credit history and his credit commitments. That detailed table was set out in the FRL and as I know both parties have received that I do not duplicate it here. I will come back to these credit search results in the main part of the decision.

In its FRL Novaloans gave reasons as to why it did not uphold Mr H's complaint. His representative referred it to the Financial Ombudsman where one of our adjudicators came to the same view. Our adjudicator had treated loan 3 as a new loan at the start of a fresh loan chain and I agree with that approach.

Mr H's representative gave no explanations as to why Mr H disagreed and sent no additional evidence but it asked for an ombudsman's review. Mr H's bank account statements had been sent to us.

The unresolved complaint was passed to me to decide.

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 this type of lending - including all the relevant rules, guidance, and good industry practice - on our website.

Novaloans had to assess the lending to check if Mr H could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Novaloans' checks could've taken into account several different things, such as how much was being lent, the size of the repayments, and Mr H's income and expenditure.

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

- Mr H 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 H having a large number of loans and/or having these loans over a long period (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr H 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 H.

Novaloans was required to establish whether Mr H could *sustainably* repay the loans – 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 H was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr H's complaint. I've decided not to uphold Mr H's complaint.

Mr H's declared income and expenditure for each of the loans demonstrated to Novaloans that he was able to afford the repayments. And as I have got Mr H's copy bank statements for the lending relationship period (they cover loans 1 and 2 – not loan 3) I did view them to see if the income he was receiving was about what he'd declared and it was.

I do not have the application form details for loans 1 and 2 but I do not consider I need them as I have the summary in the Novaloans FRL which looks accurate for loan 3 and so I have no reason to consider that the details in the FRL would be anything other than accurate for loans 1 and 2.

Mr H's application for loan 3 included his declaration that he was single, worked full time and was spending around £600 a month on loans and home-credit. And Novaloans increased some of his expenditure to a more realistic figure as Mr H had not given a rent cost so Novaloans inserted a figure of around £352 to cover that anticipated cost. And this was despite Mr H declaring that he lived at home with his parents. Still the loan repayments were affordable. Mr H has repaid loan 3 on 4 November 2022.

Mr H's credit file details (summarised in the FRL) did not reveal any issues likely to have caused concern to Novaloans to the extent that it considered a refusal of modest value loans was the right outcome. The overall debt for each loan application was low – ranging from £651 at loan 1 to £2,175 at loan 3. These were not high debt levels. There were no indications of any insolvency issues.

I've seen in the analysis in the FRL that Mr H had a satisfied and historic County Court Judgment (CCJ) and a default within 36 months of the first loan application. But these alone would not have prompted it to have carried out any further or more detailed research into Mr H's financial position. Lenders such as Novaloans are used to receiving applications where there is some adverse information on the credit file and having seen all the other analytical measures it took in Mr H's case I consider it carried out the right checks.

It would have been disproportionate for Novaloans to have asked to review Mr H's bank statements.

Overall, I consider that Novaloans carried out checks proportionate to the loan values and the position of those loan applications in the lending relationships (over two loan chains) and I do not consider it lent irresponsibly. I do not uphold the complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 18 August 2023.

Rachael Williams
Ombudsman