DRN-4309553

## Complaint

Mr R has complained about high-cost short-term credit instalment loans he took out with Valour Finance Limited (trading as "Savvy".co.uk).

He says Savvy lent to him at a time when he was already in a cycle of debt and taking out payday loans to repay previous borrowing.

## Background

Savvy provided Mr R with a total of three high-cost short-term credit instalment loans.

The first of them was taken in November 2017 was for £1,250.00 and was due to be repaid in 15 monthly instalments of £166.66. The second of the loans was taken in May 2018 was for the same amount as loan 1 and was on exactly the same terms. The third and final loan was taken in August 2020, was for £1,200.00 and was due to be repaid in 12 monthly instalments of £200.

One of our investigators reviewed what Mr R and Savvy had told us. And she thought that Savvy ought to have realised that it should not have provided these loans to Mr R. So she recommended that the complaint be upheld.

Savvy disagreed and asked for an ombudsman to look at 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 short term lending on our website. And I've used this approach to help me decide Mr R's complaint.

Having carefully thought about everything I've been provided with, I'm not upholding Mr R's complaint. I'd like to explain why in a little more detail.

Mr R was provided with high-interest loans, intended for short-term use. So Savvy needed to make sure that it didn't provide them irresponsibly. In practice, what this means is that Savvy needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Mr R before providing it.

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 that information – 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 lend to a customer irresponsibly.

Savvy says it agreed to Mr R's applications after he'd provided details of his monthly income and expenditure. It says the information Mr R provided on his income and expenditure assessments, which it went through with him over the telephone, showed that he'd be able to comfortably make the repayments he was committing to. And in these circumstances it was reasonable to lend to him on each occasion. On the other hand, Mr R says that the loans were unaffordable and shouldn't have been provided to him.

I've carefully thought about what Mr R and Savvy have said.

I accept that Savvy did take steps to cross-check Mr R's income declaration against information it obtained on the funds going into his account each month from credit reference agencies. This suggested Mr R's declaration of income was accurate. So the amount of respective monthly payments were low in comparison to Mr R's income.

However, I also think that it is important to focus on the other information that Savvy will have seen on the credit checks it obtained. At the time of loan 1, the credit search showed that Mr R had more than one defaulted account. Mr R had a mortgage and a secured loan, the secured loan having been taken within the year prior to this application.

Mr R had also taken another loan in the month before this application and had revolving credit accounts close to their limits. So while Mr R was a high earner, it's clear that he was significantly indebted and also had significant monthly commitments already.

By the time of loan 2, Mr R secured loan balance had almost doubled, as he'd taken out further borrowing at the start of 2018. Yet despite this his default balances hadn't been cleared and he was still very close to the limit on more than one revolving credit account. For loan 3, the position was worse still as Mr R had even less headroom on his revolving credit accounts. This was despite having had reasons for taking what were supposed to be loans for one off discreet purposes.

As I said, I accept that Savvy's underwriters had conversations with Mr R about his previous loans. But given the sheer amount of debt that Mr R was carrying and his previous difficulties with credit, I don't think it was reasonable to rely on what Mr R was saying. And, in my view, Savvy ought to have taken further steps to verify Mr R's outgoings at the time of these loans.

As Savvy did not carry out such checks at the time of Mr R's applications, I'm satisfied that the checks it carried out before providing these loans, were not reasonable and proportionate.

I've considered the further information that has since been provided with a view to determining what reasonable and proportionate checks are likely to have shown at the respective times. I think that if Savvy had carried out such checks here it would have seen that it shouldn't have provided these loans to Mr R.

I say this because Savvy was required to establish whether Mr R could make his loan repayments without experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation. And having considered the information provided, I'm satisfied that it is clear Mr R was struggling to manage his existing commitments and was borrowing from multiple lenders in an attempt to make the payments he had due.

So I think that proportionate checks would have shown Savvy that Mr R was likely to use these loans to perpetuate a cycle of unsustainable credit. And this was going to lead to Mr R building up even more debt that he couldn't repay in a sustainable manner. This meant that Mr R was unlikely to be able to repay these loans without borrowing further or suffering significant adverse consequences.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mr R would not have been able to make the repayments to these loans without borrowing further and/or suffering undue difficulty. Indeed he was taking out new loans to repay previous ones and I think that Savvy ought to have realised this notwithstanding the discussions its underwriters had with Mr R.

In these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted Savvy to the fact that Mr R was in no sort of position to make the payments on these loans without borrowing further or suffering significant adverse consequences. So I'm upholding Mr R's complaint. As Mr R had to pay interest and charges on loans that Savvy shouldn't have provided him with, I think that he lost out and that Savvy should now put things right.

**Fair compensation – what Savvy needs to do to put things right for Mr R**

Having thought about everything, Savvy should put things right for Mr R by:

- refunding any interest, fees and charges that Mr R paid on all three of his loans;

- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr R to the date of settlement†;

- removing all adverse information recorded about these loans from Mr R's credit file.

† HM Revenue & Customs requires Savvy to take off tax from this interest. Savvy must give Mr R a certificate showing how much tax it has taken off if he asks for one.

**My final decision**

For the reasons I've explained, I'm upholding Mr R's complaint. Valour Finance Limited should put things right in the way I've set out above.

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

Jeshen Narayanan
**Ombudsman**