DRN-4168324

The complaint

Mr G complains that Western Circle Ltd trading as Cashfloat ("Cashfloat") didn't carry out sufficient affordability checks before it granted loans to him.

What happened

Mr G took three loans from Cashfloat and a summary of his borrowing can be found below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	largest repayment per loan
1	£1,000.00	15/08/2020	07/12/2020	7	£298.25
2	£350.00	13/01/2021	29/01/2021	4	£144.91
break in lending					
3	£500.00	27/11/2021	30/12/2021	5	£192.75

Cashfloat wrote to Mr G with a final response letter and explained why it didn't consider an error had been made by providing these loans. Unhappy Mr G referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, and he didn't uphold it. In summary, this was because there was a gap in lending between loans two and three. He also thought that Cashfloat had carried out proportionate checks - which showed the loans to be affordable.

Mr G didn't agree with the adjudicator's assessment and instead asked for an ombudsman's review. Therefore, the complaint has been passed to me to resolve.

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 short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Cashfloat had to assess the lending to check if Mr G 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. Cashfloat's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr G's income and expenditure.

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

- Mr G 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 G having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr G 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 G. The adjudicator didn't think this applied to Mr G's complaint and I agree.

Cashfloat was required to establish whether Mr G 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 G was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr G's complaint.

There is a significant break in lending between loan two being repaid and loan three being granted. This break in my view, is significant enough for Cashfloat to have treated Mr G's third loan application as if he was a new customer. This does have implications for the proportionate nature of the checks because the third loan effectively becomes loan one in a new lending chain. I've kept this in mind when thinking about Mr G's overall lending history.

Before these loans were approved, Cashfloat took details of Mr G's income and expenditure. Cashfloat recorded that Mr G worked full time and received a monthly salary of £1,850 for loans one and two and £1,950 for loan three. Cashfloat says his declared income was cross referenced with a third-party salary tool, and the results were positive, indicating a high degree of accuracy.

For the final loan, Cashfloat says it requested a copy of a payslip due to Mr G's income increasing – and a copy of that payslip has been provided which shows in October 2021, Mr G received nearly £2,200 per month. However, despite this Cashfloat says it still used - for the purposes of its affordability assessment - a more conservative monthly income figure of £1,950.

Cashfloat also made enquiries about his living costs, which Mr G declared to be £750 per month for loans one and three and £1,000 per month for loan two.

It's worth saying here that Cashfloat says that it assessed Mr G's monthly expenditure using what is calls "*trigger values*" – these take account of an applicant's job, location, homeowner status to name a few factors. Having used these trigger values it estimated Mr G's monthly outgoings were likely to be around £1,359 and to that it added a further buffer of £100. Even using the larger monthly outgoings along with the buffer, there was sufficient disposable income.

It doesn't appear that Cashfloat carried out a credit search before these loans were approved. But there was no regulatory requirement to do one. So, the fact no credit search was likely conducted isn't a reason to solely uphold the complaint

As part of the assessment Cashfloat knew, because Mr G had told it, that he lived at home with parents which would likely have given it more confidence that the loans would be affordable given Mr G hadn't declared any priority bills that would need to be paid out of his income such as a mortgage or council tax.

Based on the checks that Cashfloat did do, I'm satisfied these were proportionate to the circumstances of each loan and so while Mr G has sent copy bank account statements. In this case, I don't think it would've been proportionate for Cashfloat to have considered them.

I say this because his borrowing history – so thinking about the amounts borrowed and the gaps between loans. The way Mr G repaid his loans as well as what Cashfloat discovered through its checks wouldn't, in my view have led it to be believe that it needed to go further, such as reviewing his bank statements. To have reviewed the bank statements would've been disproportionate in the circumstances.

There also wasn't anything else, such as the way Mr G repaid his loans, that would've led Cashfloat to believe that it needed to conduct further checks or to have declined his applications for credit.

Given it was early on in the lending relationship – and Mr G was only granted three loans in two lending chains, I think it was reasonable for Cashfloat to have relied on the information Mr G provided to it – which showed he had sufficient disposable income to afford the repayments. There also wasn't anything to suggest that Mr G was having either current financial difficulties or to indicate the loan repayments would be unsustainable for him.

Taking everything into account, I do no not uphold Mr G's complaint.

My final decision

For the reasons I've outlined above, I am not upholding Mr G's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 1 November 2023.

Robert Walker
Ombudsman