DRN-4144769

The complaint

Mr M complains Shelby Finance Ltd trading as Dot Dot Loans ("Shelby") provided him with loans which left him in financial trouble.

What happened

Mr M was granted three loans from Shelby and a summary of his borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	monthly repaymnet
1	£300.00	19/10/2021	21/10/2021	3	£162.31
2	£300.00	05/02/2022	31/05/2022	3	£143.71
3	£150.00	07/06/2021	30/09/2022	3	£71.79

Shelby considered the complaint and concluded it had made a reasonable decision to provide these loans based on proportionate checks and the information it received at the time. Unhappy with this response, Mr M referred his complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, who didn't uphold it. She said, Shelby had carried out proportionate checks before each loan was approved which demonstrated Mr M could afford his repayments.

Mr M didn't agree, and he asked for a final decision. He also supplied copies of his bank account statements. As no agreement has been reached, the case has been passed to an ombudsman for a final decision.

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.

Shelby had to assess the lending to check if Mr M 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. Shelby'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 M'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 Shelby should have done more to establish that any lending was sustainable for Mr M. These factors include:

- Mr M 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 M 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 M 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 M. The adjudicator didn't consider it applied in Mr M's complaint.

Shelby was required to establish whether Mr M 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 M 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 M's complaint.

Having reviewed everything, Shelby carried out the same sort of checks before each loan was advanced and in my view these checks were proportionate and showed Mr M could afford his repayments. I've explained why I've come to this conclusion below.

Before each loan was approved, Shelby asked for details of Mr M's income and expenditure. Mr M's income was declared as being £1,500 per month for loan one, £1,700 for loan two and £2,050 for loan three. Shelby also says this amount was cross referenced with a credit reference agency to verify its accuracy.

He also declared monthly outgoings ranging from £610 at loan one to £800 at loan three. However, as part of the application, Shelby overlaid what Mr M had declared about his expenditure with data from two different sources and then if needed, it would make adjustments to the figures Mr M had provided. Firstly, it used Office of National Statistics (ONS) data and secondly, it used information from Mr M's credit search (which I'll go into in more detail below). And having done so, Shelby adjusted the figures provided for loans one and three.

For loan one, it increased Mr M's outgoings to £795 each month, which still left £705 each month to enable Mr M to make the repayment of around £163. For loan three, Mr M's expenditure was increased to £1,349 – which left £701 of disposable income each month. Based solely, on the income and expenditure data the loans looked affordable.

Before each loan was approved Shelby also carried out a credit search and it has provided a summary of the results it received from the credit reference agency. It is worth saying here that although Shelby carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. But what Shelby couldn't do is carry out a credit search and then not react to the information it received – if necessary.

Having reviewed the credit check results, my view is there isn't anything in any of the results that would've indicated that Mr M was having financial difficulties, for example it knew there were no insolvency markers or defaults within the 12 months preceding each loan. There also wasn't anything within the results that indicated Mr M was reliant on these sorts of high-cost credit loans. And while the results did show previously Mr M had taken payday loans, before loan one there hadn't been any such loans within the preceding six months.

In my view, just thinking about the credit check results these wouldn't have led Shelby to either have carried out further checks such as reviewing bank statements or prompted it to have declined Mr M's applications for credit.

Overall, there was also nothing else in the information that I've seen to have led Shelby to believe that it needed to go further with its checks – such as verifying the information Mr M declared. So, while Mr M has provided copy bank statements it would've been, in my view, disproportionate for Shelby to have considered them.

Given the evidence provided, I think the checks Shelby carried out before each loan was proportionate which showed it that Mr M would be able to afford the repayments, he was committed to making. There also wasn't anything else to suggest that Mr M was having financial difficulties or that these loans would be unsustainable for him.

I'm therefore not upholding Mr M's complaint.

My final decision

So, for the reasons I've explained above, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 22 September 2023.

Robert Walker
Ombudsman