

## The complaint

Miss D complained through a representative that Novaloans Ltd (“Novaloans”) provided her with a loan without conducting the correct affordability checks.

## What happened

Miss D was advanced two loans and I’ve summarised her borrowing in the table below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	highest repayment per loan
1	£600.00	29/04/2021	25/08/2021	4	£243.70
2	£700.00	31/08/2021	24/09/2021	4	£281.47

Novaloans considered the complaint, and it didn’t uphold it. Unhappy with this response, Miss D’s representative referred her complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, who didn’t uphold it. He said Novaloans had carried out proportionate checks which indicated Miss D would be able to afford the loans.

Miss D’s representative didn’t agree. As no agreement has been reached, the case was referred for an ombudsman’s 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.

Novaloans had to assess the lending to check if Miss D could afford to pay back the amounts she’d borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Novaloans’ checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss D’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 Novaloans should have done more to establish that any lending was sustainable for Miss D. These factors include:

- Miss D 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);
- Miss D 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);

- Miss D 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 Miss D. The adjudicator didn't consider this applied in Miss D's complaint because there were only two loans and I agree.

Novaloans was required to establish whether Miss D could *sustainably* repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Miss D was able to repay her loan 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 Miss D's complaint.

Before these loans were approved, Novaloans asked Miss D for details of her income, which she declared as being £2,998 per month for loan one and £3,050 for loan two from her full-time employment. As these were her first two loans and it was early in the lending relationship, I think it is reasonable for Novaloans to have relied on what she declared.

Miss D also declared monthly outgoings of £1,650 for loan one and £1,430 for loan two. This expenditure was broken down across a number of different categories for example rent, loans, credit cards, food and utilities. Again, as before with the income it was entirely reasonable and proportionate for Novaloans to have relied on the information it received. This left Miss D with sufficient disposable income to afford the largest loan repayment of £281.47. So, I am satisfied that the loans looked affordable.

In addition, before the loans were approved, Novaloans says it also carried out a credit search. It is worth saying here that although Novaloans carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard.

The summary of the results Novaloans received was provided in the final response letter. For both loans, it knew that Miss D wasn't insolvent and didn't have any active or satisfied County Court Judgements. It also knew that in the previous 12 months Miss D hadn't defaulted on any accounts.

For loan one, Miss D had 15 active accounts with a total debt balance of £14,003 and she was utilising 82% of her available credit. For loan one it also knew that there hadn't been active payday loans within the last six months and there were also none outstanding at the time.

The results for loan two were similar, Miss D had 16 active accounts. Her outstanding balances had reduced and her available credit had significantly reduced to 47%. Once again, Novaloans was informed that there hadn't been any active payday loans either opened or currently active within the last six months.

Overall, there was also nothing in the information that I've seen that would've led Novaloans to believe that it needed to go further with its checks – such as verifying the information Miss D had provided. So, while her representative has provided copy bank statements, I think it would've been disproportionate for Novaloans to have asked for them at the time.

Overall, for the start of the lending relationship, where the checks were proportionate and the loans looked affordable, I don't think Novaloans needed to do anything more to satisfy itself

that Miss D could afford to repay the loans. And there wasn't anything else either in the credit checks or the way Miss D repaid loan one to make Novaloans think that the lending would be unsustainable for her for any other reason.

Given this, I do not uphold Miss D's complaint about Novaloans' decision to advance the loans.

### **My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 20 October 2023.

Robert Walker  
**Ombudsman**