DRN-4104085

The complaint

Mr R complains Gain Credit LLC trading as Lending Stream ("Lending Stream") provided him with a loan which wasn't affordable.

What happened

Mr R was granted one loan on 3 August 2022 for £250. Mr R was due to make five instalments of £80.95 with a final instalment due of £79.73. Mr R has had some problems repaying the loan, and when Lending Stream provided its file, an outstanding balance remained due although Mr R was making payments through an informal repayment plan.

Lending Stream considered the complaint and concluded it had made a reasonable decision to provide the loan because it had carried out proportionate checks which showed it Mr R could afford the repayments. Unhappy with this response, Mr R referred his complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, who didn't uphold it. He said Lending Stream had reasonable grounds to believe Mr R could afford the loan and that it had carried out proportionate checks.

Mr R didn't agree, and said in summary:

- After all his bills, he had around £500 per month but he still needed to pay for food.
- Lending Stream only asked for a total monthly expenditure, rather than asking for the details to be broken down into categories. Mr R says by doing that he could've forgotten to add his car payments in his expenditure. He also says he forgot to include payments he makes to his daughter.
- Lending Stream didn't make enquires into whether Mr R had any children.
- Lending Stream's credit search ought to have shown that Mr R had a lot of outstanding debt with access to an online shopping account.

Lending Stream didn't have any further comments.

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.

Lending Stream had to assess the lending to check if Mr R could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Lending Stream'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 R'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 Lending Stream should have done more to establish that any lending was sustainable for Mr R. These factors include:

- Mr R 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 R 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 R 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 R. The adjudicator didn't consider this applied in Mr R's complaint.

Lending Stream was required to establish whether Mr R could *sustainably* repay the loan – 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 R was able to repay his loan 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 R's complaint.

Before the loan was approved, Lending Stream asked Mr R for details of his income, which he declared as being £2,000 per month. Mr R also declared he worked full time and had worked at the same employer for several years. As this was the first loan, it was proportionate for Lending Stream to have relied on the information Mr R had provided.

Mr R also declared monthly outgoings of £700 for the loan. Lending Stream says these figures were broken down as £200 for regular expenditure and £500 for credit commitments. However, Lending Stream has shown that it increased Mr R's outgoings by a further £275 taking into account "*independent checks*". So, when Lending Stream completed its affordability assessment, it believed Mr R's monthly outgoings were £975.

After carrying out these checks, Mr R's disposable income was £1,025 per month with which to afford the loan repayments of around £81. The loan would've looked affordable.

I appreciate Mr R says that he may have not included all his outgoings, and this could've been caused by the fact that Lending Stream didn't break the expenditure question down into various categories. However, I also have to consider, this was the first loan and Lending Stream did ask Mr R for his expenditure details, and for a first loan I do think that was reasonable and fair for it to rely on the information it was provided with. Mr R had the opportunity to withdraw from the loan within 14 days if he had realised his mistakes.

Before the loan was approved Lending Stream 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 Lending Stream carried out credit searches, there isn't a regulatory requirement to do one, let alone one to a specific standard. But what Lending Stream 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, Lending Stream knew that Mr R had 11 active credit accounts, with monthly repayments of around £440 – which is roughly what Mr R had declared as part of his application. It also knew that Mr R had defaulted on an account between 13 and 36 months before the loan was approved, so I don't think that would've given Lending Stream cause for concern.

There was an indicator that perhaps Mr R had early arrears on a credit account, but that alone wouldn't have been enough to prompt further checks considering the amount Mr R was due to pay each month. The other checks that had been carried out showed the loan was affordable.

Overall, there wasn't anything within the credit search that would've led Lending Stream to believe that it needed to go further with its checks – such as verifying the information Mr R had provided.

As this was Mr R's first loan and it was for a modest sum, I think it was reasonable for Lending Stream to have relied on the information Mr R gave about his income and expenditure which showed he could meet his repayments. There also wasn't anything else to suggest that Mr R was having financial difficulties or that the loan would be unsustainable for him.

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

My final decision

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

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

Robert Walker
Ombudsman