

The complaint

A limited company, which I will refer to as J, complains that IWOCA Ltd didn't carry out sufficient due diligence or affordability checks before agreeing to lend J more money in June 2018.

J is represented in this complaint by Mr H, who is one of J's directors.

What happened

In April 2017, J borrowed £5,000 from IWOCA using a revolving credit facility. J's directors make no complaint about that initial 2017 loan (which was for less than they initially applied for), nor do they complain about anything else IWOCA did before June 2018. J's complaint is about the June 2018 increase in borrowing.

Mr H told us:

- As at the time of the extended borrowing in June 2018, J owed more than £55,000 to a different finance provider. It also had other financial commitments.
- On 1 June 2018 IWOCA increased J's credit limit from £5,000 to £14,000. But it did not ask for bank statements, re-check the guarantor security, or carry out any of the other relevant checks that it should have done. Instead, it *"simply asked for a turnover figure WITHOUT asking any relevant questions with regards to outgoings and future income/expenditure. This was reckless and lacked due diligence."*
- J had no fixed assets, rented its accommodation, and overall was in a poor financial position.
- Ultimately J *"was unable to repay the debt at the agreed rate due to a substantial industry change in June 2019. Any change to the income of the business, even a slight decrease in income, would have ensured that the company could not meet this commitment."*

IWOCA told us:

- J's loan was unregulated, but it still followed good industry practice – which it took from the Lending Standard Board's standards of lending practice for business customers.
- When it made its 2017 lending decision, it relied on self-declared information from J's director, the company's credit file, and the director's personal credit file. For the subsequent increase, it *"relied upon the account history and a self-declared rise in annual turnover...[and] found no information to suggest [J] wouldn't be able to meet repayments"*.
- It considers J's directors would have known more than IWOCA did about its future plans and projected turnover. It says it is clear that J wanted to borrow more, and

used the funds when they became available. It considers that it was not until July 2019 that it became apparent that J was experiencing financial difficulties.

One of our investigators looked at this complaint, but didn't uphold it. He thought IWOCA had taken relevant information into account when making its 2018 lending decision, and he didn't think it had acted unreasonably.

Mr H did not agree with our investigator, and he asked for the matter to be referred to an ombudsman. Mr H said that if IWOCA had followed good industry practice, it would have seen that the June 2018 increase was unaffordable.

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.

Mr H has provided detailed submissions in support of J's complaint. I confirm I have read and considered those submissions in full, even though I have not responded individually to all the points he has made. Instead, I've focussed on what I think are the key issues. Our rules allow me to do this, and my approach simply reflects the informal nature of our service as an alternative to the courts.

I am sorry to further disappoint Mr H, but there is very little I can add to what our investigator has already said. I don't think IWOCA has done anything wrong, and so I don't think it would be fair for me to uphold J's complaint.

Mr H and IWOCA agree that IWOCA should have *"assess[ed], from the information available at the time, whether the customer [J] will be able to repay [any additional borrowing] in a sustainable manner without incurring financial difficulty"*. The disagreement between them is about whether IWOCA properly carried out such an assessment.

It's clear that the actions IWOCA took in 2018 were not the same as the actions it took in 2017. Mr H has made a particular point of the fact IWOCA asked to see the company's bank statements on three previous occasions but not immediately prior to the June 2018 increase.

I don't think it would have been wrong for IWOCA to have requested bank statements in 2018, but nor do I think it was wrong for IWOCA to make its lending decision without those bank statements. Deciding whether or not to lend is a matter for IWOCA's commercial judgement, and I would not interfere with that unless I thought IWOCA had treated its customer unfairly.

Here, while I can see that Mr H has very strong feelings about the matter, I don't think IWOCA did treat J unfairly. It did carry out an assessment of J's ability to repay the loan. That assessment was not as detailed as Mr H believes it should have been, but nevertheless I think IWOCA was entitled to choose to rely on that assessment.

The evidence here shows that just before June 2018 one of J's directors told IWOCA she wanted funding to allow J to change its business model slightly, and to expand into a related area. She told IWOCA that the directors believed they had an opportunity which would have large costs in the short term but produce long term gains. It is evident that things did not turn out as the directors hoped, but that does not mean that IWOCA did anything wrong in agreeing to lend J more money.

J was able to meet its obligations to IWOCA until July 2019. Mr H has explained that was only as a result J making significant cuts, and reducing the amount the directors were taking

out of the business – which ultimately meant that the directors fell into mortgage arrears and lost their home in June 2020. Mr H also said that from July 2019 onwards, changes in J's industry meant that the cuts the directors had made were no longer enough, and payments to IWOCA could not be maintained.

I am very sorry to hear about the financial and health difficulties suffered by Mr H and his partner. In hindsight, I accept that J's payments to IWOCA turned out to be unaffordable. But I am looking here at what happened in June 2018, and at that time I don't think IWOCA could or should have known that J would not be able to afford to repay the increased borrowing in future. IWOCA was not responsible for the changes to J's industry, and as at June 2018 I consider it was reasonable for IWOCA to have believed that J would be able to repay the additional borrowing in a sustainable way without incurring financial difficulty.

IWOCA would certainly have known that there was a risk that the loan would become unaffordable in future. That is always a risk, in both commercial and consumer lending. But the existence of that risk does not mean a lender was wrong to choose to lend, nor does it mean a borrower was wrong to choose to borrow.

My final decision

My final decision is that I do not uphold this complaint against IWOCA Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 25 October 2023.

Laura Colman
Ombudsman