

The complaint

Mr B complains Novaloans Ltd trading as cash4unow.co.uk ("Novaloans") provided him with a loan which he couldn't afford to repay.

What happened

Mr B was advanced one loan of £250 on 2 December 2021 and he was due to make four monthly repayments of £98.04. Mr B has had some problems repaying the loan and Novaloans says the account was passed to a third-party collection agency in March 2022. Based on the latest statement of account provided by Novaloans it does seem Mr B is currently making payments of around £20 per month.

Novaloans considered the complaint, and it didn't uphold it because it says it had carried out a proportionate check which showed the loan to be affordable. Unhappy with this response, Mr B referred his complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, who didn't uphold it because proportionate checks had been carried out.

Mr B didn't agree saying that he has seen a different approach when it comes to other complaints he has had. Mr B said at the very least the default should be removed.

As no agreement has been reached, the case has been passed 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.

Novaloans had to assess the lending to check if Mr B 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. 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 Mr B'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 Mr B. These factors include:

- Mr B 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 B 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 B 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 B. The adjudicator didn't consider this applied in Mr B's complaint because there was only one loan and I agree.

Novaloans was required to establish whether Mr B 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 B was able to repay his 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 Mr B's complaint.

Before the loan was approved, Novaloans asked Mr B for details of his income, which he declared as being £2,300 per month from his full-time employment. As this was the first loan, I think it is reasonable for Novaloans to have relied on what he had declared.

Mr B also declared monthly outgoings of £1,098 broken down across a number of different categories for example mortgage / rent, loans, credit cards, food and utilities. For a first loan it was entirely reasonable and proportionate for Novaloans to have relied on the information it received. This left Mr B with sufficient disposable income to afford the repayment of £98.04. So, I am satisfied the loan looked affordable.

In addition, before the loan was approved, Novaloans says it also carried out a credit search and a summary of the results Novaloans received was provided in the final response letter which Mr B has seen. It knew that Mr B wasn't insolvent and didn't have any active or satisfied County Court Judgements. It also knew that in the previous 12 months Mr B hadn't defaulted on or had any accounts enter delinquency.

Novaloans was told Mr B had 10 active accounts with a total debt balance of £3,315 – which in my view, given Mr B's declared income isn't high enough to have warranted further checks.

Finally, it knew that Mr B had one active payday loan and apart from that one, he hadn't taken any others within the last six months. The total outstanding for that loan was £438. Now it's possible all of that was due to be paid in one lump sum or the total amount due could've been split across more than one instalment. But however, that loan was due to be repaid, Mr B had, based on what he told Novaloans, sufficient disposable income to cover the loan repayment.

The final response letter also seems to suggest that Novaloans used open banking to confirm Mr B's income and expenditure. And having considered the notes made by the Novaloans agent, I've not seen enough to suggest that there was other information it needed to consider which suggested either the loan was unaffordable or unsustainable for Mr B,

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 Mr B had provided. So, it would've been disproportionate for Novaloans to have asked for them at the time.

For a first loan, where the monthly repayments were modest, I think it was entirely proportionate for Novaloans to have relied on the information Mr B gave it about his income and expenditure which showed the loan to be affordable. Which also means I don't think that Novaloans needed to do any further check such as requesting copies of Mr B's bank statements. That would've been in my view entirely disproportionate.

Given this I do not uphold Mr B's complaint about Novaloans' decision to advance the loan.

Default

In Mr B's complaint form he said that he'd not had any communication from Novaloans about the default.

Further enquires were made with Novaloans about this issue after the case was passed to me. Novaloans said this point, i.e. the lack of communication wasn't part of Mr B's original complaint. As such, it is entitled to have an opportunity to investigate and address Mr B's concerns around the default. It has told us that as of 14 September 2023 it had arranged for a new complaint about the default to be set up and investigated.

As such it isn't appropriate to consider or investigate what happened with the default notice until either Novaloans issues a new final response letter or more than eight weeks has passed since the complaint was logged. So, I will say no more about the default.

My final decision

For the reasons I've explained above, I'm not upholding Mr B's complaint.

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

Robert Walker
Ombudsman