

The complaint

Mr K complains that Link Financial Outsourcing Limited trading as Asset Link Capital (No.9) lent to him irresponsibly.

What happened

Mr K was approved for three loans with Link Financial Outsourcing Limited trading as Asset Link Capital (No.9) ("Asset Link"). The purpose of these loans was to support Mr K while he was completing his educational studies. The details of the loans are as follows:

- Loan 1 taken out in May 2019 for £2,000. Payments due were 20 monthly in-study repayments of £20 and 84 monthly out of study repayments of £43.35.
- Loan 2 taken out in December 2019 for £2,000. Payments due were 13 monthly in-study repayments of £35 and 84 monthly out of study repayments of £36.59.
- Loan 3 taken out in March 2020 for £7,000. Payments due were 10 monthly in-study repayments of £5 and 84 monthly out of study repayments of £171.08.

Mr K complained to Asset Link saying they'd lent to him irresponsibly which led him to borrow from other companies and from friends and family to get through month to month. Asset Link didn't agree although they offered to cap Mr K's liability on loans two and three to the capital amounts of £2,000 and £7,000.

Our investigator didn't uphold the complaint. He felt the checks Asset Link carried out before deciding to lend were proportionate for each loan. And he felt that Asset Link took reasonable steps to ensure the payments were affordable once Mr K's in-study periods ended.

Mr K didn't agree and asked for an ombudsman's 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 approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Mr K's complaint.

Bearing in mind the rules, regulations, guidance and good industry practice, I think that there are two key questions for me to think about while looking at Mr K's complaint.

These are:

1. Did Asset Link complete reasonable and proportionate checks to satisfy themselves that Mr K would be able to repay the loans in a sustainable way?

- a) If so, did they make a fair lending decision?
- b) If not, would those checks have shown that Mr K would've been able to do so?

2. Did Asset Link complete a review of Mr K's circumstances once the in-study periods had ended?

Did Asset Link complete reasonable and proportionate checks to satisfy themselves Mr K would be able to repay the loans in a sustainable way?

Before I go on to consider the checks Asset Link carried out, I've considered what they have said about their operating model and profile of their borrowers. Asset Link has explained that they offer loans to individuals who are funding their further education. They say their approach to lending meets the relevant regulatory guidelines.

The main difference between Asset Link's lending here and that typically provided by other lenders is that they completed creditworthiness assessments based on the projected 'future' earnings or income of the applicant. In respect of this complaint, Asset Link has explained their assessment model is based on using information from credit reference agencies, employment information and statistics associated with the course Mr K undertook, the further education institution he attended and his intended career post-graduation. And they say they assessed whether Mr K would be able to afford smaller repayments during the period in which he would be in education and the full, post-graduation repayments using his data and independent data to calculate Mr K's projected income and projected debt upon graduation.

Asset Link needed to take reasonable steps to ensure they didn't lend irresponsibly to Mr K. The relevant rules, regulations and guidance at the time Asset Link lent required them to carry out reasonable and proportionate checks. These checks needed to assess Mr K's ability to sustainably repay the loans over their intended terms without causing him financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as their circumstances. And it isn't sufficient for Asset Link to just complete proportionate checks – they must also consider the information they obtained from these checks to make a fair lending decision. This includes, for example, not lending to someone who's already struggling to repay what they owe; and ensuring repayments can be made sustainably – in other words without having to borrow further or experiencing undue difficulty.

Asset Link was entitled to rely on expected future income for Mr K when making this assessment. Provided that this assessment was appropriate (bearing in mind what CONC required in terms of proportionality) and there was an appropriate exercise of forbearance in relation to any initial payments.

Asset Link says they completed proportionate checks for the three loans. They say they completed a credit search on Mr K before approving each loan. I've had a look at the data Asset Link has sent for each application. This told them that Mr K didn't have any existing debt he was servicing each month. I'm unsure whether Mr K did have ongoing credit commitments at the time each loan was granted. However, Asset Link was entitled to rely on the information they gathered at the time. I can't see that they were aware of any conflicting information which demonstrated they could not rely on the information they had been presented with.

Asset Link then went on to calculate Mr K's future expected income on each occasion. I've looked at the data they gathered for this. It shows that based on the information they had at

the time, Mr K would be earning a yearly salary of approximately £20,559 post-tax. Asset Link also calculated Mr K's expected outgoings, including his increased payments for the loans; and deemed that Mr K would have sufficient disposable income to meet this sustainably. They say based on these checks the loans appeared affordable.

I've considered Asset Link's arguments, and in this instance, I agree with them. I'm mindful that the amounts borrowed by Mr K, while not insignificant, weren't for an especially large amount. This meant that the in study and out of study repayments remained relatively low. Therefore, the checks that Asset Link had to do needed to be proportionate to these amounts. As such I'm satisfied proportionate checks in this instance would've included obtaining a reasonable understanding of Mr K's circumstances.

As set out above Asset Link checked Mr K's credit file; and used this information to help inform their calculations. And they considered Mr K's likely future income. Asset Link has provided a number of detailed materials in relation to their business model to our service previously as well as on this case. I've taken this information into account when considering the reasonableness of Asset Link's predictions. For the sake of clarity Asset Link says they use information from third parties (including the educational institutions which have been applied for) to gather the likely salary. They say they use this information as well as known credit commitments to conduct their future affordability assessments.

I've considered this information, and, in this instance, I'm satisfied their prediction of Mr K's affordability was proportionate. Here, based on Mr K's university and field of study, they predicted his likely income after graduation to be around £20,559 per year. This would give Mr K an average monthly income of around £1,500 per month. Considering what Asset Link has said about Mr K's course, which was for a bachelor's in accountancy, this figure seems reasonable. It may be different if the salary predicted was unreasonably high, but I'm satisfied that a salary of £20,559 per year wasn't out of kilter with other graduate starting salaries, and therefore I'm satisfied it was reasonable for Asset Link to rely on it.

Asset Link's calculations for Mr K's future outgoings on each occasion also appears reasonable. They took into account Mr K's estimated expenses and factored in the increased out of study repayments. While this calculation is by no means fool proof it does take into consideration a reasonable estimation of the commitments that Mr K likely would have had. And again, considering the relatively low value of the loans and repayments I'm satisfied it was proportionate in this instance. In addition to the above, I also note that the loans were being used to help Mr K with his living expenses whilst he was studying. Asset Link was entitled to take this into account when considering any expenses he had during the period he was studying.

So based on this, I'm satisfied that Asset Link completed reasonable and proportionate checks before approving the loans. And I'm satisfied they made a fair decision to lend on each occasion. The information which Asset Link gathered at the time showed that Mr K would likely be able to afford the repayments during and after his studies had been completed. They had a reasonable prediction of what his future income and outgoings would be, and these demonstrated the loans were likely affordable. Asset Link was entitled to rely on the information which Mr K provided to them, and there doesn't appear to be any contradictory information which suggested they shouldn't. So, I'm satisfied they made a fair decision to lend for each application.

Did Asset Link complete a review of Mr K's circumstances once the in-study periods had ended?

As the bulk of the repayments on the loans were always going to be made once Mr K completed his course and Asset Link could only estimate what his circumstances would be

like at this time, they were required to ensure that once the out of study period had begun, Mr K was able to meet the increased monthly repayments.

The out of study repayments increased across all three loans to a total of around £250. I haven't seen evidence that Asset Link contacted Mr K prior to the increase in his repayments. So, I don't think Asset Link completed a sufficient review of Mr K's circumstances once the repayments increased. As this review was not done, I've based my decision on what information would've likely shown at the time.

Mr K has told us that his income was around £700 a month, after tax, at this point, although this varied as he was on a zero-hours contract. This is significantly lower than the predictions relied upon by Asset Link. I have though seen evidence that Asset Link tried to help Mr K when he informed them that he was struggling. They put a hold on collections and on applying interest to give Mr K a chance to liaise with a third-party debt advisory service who were assessing what he could pay each month. Asset Link also accepted the repayment plan once it was received by them.

I'm satisfied overall that, even though Asset Link didn't carry out a review into Mr K's ability to make the out of study payments for each loan, and should have, they acted reasonably and with forbearance once they were aware of Mr K's difficulties. I note also that Asset Link has offered to cap Mr K's liability on the second and third loans to the capital sum only which doesn't feel unfair. I gather that offer is still open for Mr K to accept and, if he wishes to do so, he should contact Asset Link about this.

My final decision

For the reasons set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 17 November 2023.

Daniel Picken
Ombudsman