

The complaint

Miss D, represented by a third party, complains that UK Credit Limited was irresponsible in its lending to her. For ease of reference, I have referred to Miss D throughout this complaint.

What happened

Miss D was provided with a loan by UK Credit in July 2017. Miss D says that before the loan was provided her credit report showed she had other loans outstanding loans and loans that she had recently settled. She had also recently missed a payment on one of her accounts and an account had been transferred to a debt collection company. She says the lending was irresponsible.

UK Credit issued a final response letter in January 2023. It said that as part of the application process it carried out a credit search. It noted that Miss D had previous defaults, but these were older than two years and that as a sub-prime lender it wouldn't necessarily use the credit file as a sole reason for not providing a loan. It said that a call with an underwriter took place in July 2017 and Miss D explained the reason for the historic defaults. It said this was plausible and reasonable and as Miss D hadn't any adverse data recorded in the previous two years it wasn't concerned about her credit and didn't require further documentation.

UK Credit said it verified Miss D's income through a credit reference agency and confirmed Miss D's employment with her. An affordability assessment was then carried out and external data was used to evaluate Miss D's expenses. It said based on its checks the loan appeared affordable.

Miss D's complaint was referred to this service.

Our investigator didn't uphold this complaint. He said that given the term of the loan and the amounts Miss D had to repay and what was apparent about her circumstances at the time, that it would've been proportionate for UK Credit to ask for the amount of information needed to show the lending was unsustainable. He said that there wasn't anything in the information provided or the information he thought UK Credit should've been aware of which meant it would've been proportionate to start verifying what Miss D was saying. So, he didn't think UK Credit was wrong to lend to Miss D.

Miss D didn't agree with our investigator's view. She said the loan wasn't affordable and UK Credit should have done additional checks before providing the loan. She said she had taken out two guarantor loans in the three months prior to the loan and three in the six months prior as well as having missed payments in the months leading up to the loan and having two historic defaults.

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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Miss D was provided with a loan of £3,500 in July 2017. The loan had a term of 36 months and Miss D was required to make monthly repayments of around £156. Before the loan was provided UK Credit carried out a credit search and verified her income with a credit reference agency. An underwriting call also took place on which Miss D was asked about her credit history as well as her income and expenses. Noting the size of the loan and repayments compared to Miss D's income and taking into consideration her other credit commitments at the time I find that these checks were proportionate.

However, just because I consider the checks were proportionate, it still doesn't necessarily mean that the loan should have been provided. I have therefore considered the information UK Credit gained through its checks to assess whether it was reasonable to consider the loan affordable for Miss D.

The credit check carried out at the time of the loan application, didn't show that Miss D had any other outstanding loans or card debts at the time. There were two other accounts noted as being live with a total balance of £289. Miss D has said she took out other loans in the months leading up to this application. It takes time for information to be recorded on a credit file and so while I note the comment as these loans didn't appear on UK Credit's search, it wasn't able to take these into account.

An underwriting call took place in July 2017. Given Miss D had historic defaults recorded on her credit file I find it reasonable that these additional checks were carried out to understand her financial situation. Miss D confirmed her employment details and her income and that she believes her income (including benefits) will stay the same. Miss D is asked about her previous defaults from 2012, 2014 and 2015. Miss D confirmed these accounts had been cleared and said that her income had reduced at the time as she was on maternity pay. Miss D confirmed she was in a secure position and her finances shouldn't change.

An affordability assessment was undertaken. An amount was included for credit commitments even though Miss D had said that these had been cleared. Miss D said she paid half the bills and confirmed she paid £190 in rent (half of the total). UK Credit relied on third party data to assess her expenses, and this resulted in Miss D's share of costs being recorded as around £671. I note that Miss D has been asked to provide copies of bank statements for the three months leading up to the loan which could be used to verify her expenses. These haven't been provided. However, as I think that the checks carried out by UK Credit before the loan was provided were reasonable, I do not think that verification of expenses was required and so I do not require these to make a decision.

As I think the checks carried out by UK Credit in this case were reasonable and the information gained through these suggested Miss D's disposable income after the UK Credit loan repayments was over £700, I do not find I can say that UK Credit should have been concerned that Miss D would not be able to make her repayments. Therefore, I do not find I can say UK Credit was irresponsible in its lending to her.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 23 October 2023.

Jane Archer
Ombudsman