The complaint

Ms G (through a representative) complains Short Term Finance Limited (STF) gave her loans that she couldn't afford to repay.

What happened

In total Ms G was advanced at least 17 home collected loans between April 2014 and November 2019. I've included some of the information this Service has received from STF about the lending in the table below;

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£350.00	16/04/2015	12/08/2015	16	£35.00
2	£350.00	20/08/2015	17/12/2015	16	£35.00
3	£350.00	17/12/2015	21/04/2016	16	£35.00
4	£350.00	21/04/2016	14/09/2016	16	£35.00
5	£350.00	21/09/2016	04/01/2017	16	£35.00
6	£250.00	16/02/2017	22/06/2017	16	£25.00
7	£300.00	22/06/2017	28/09/2017	16	£30.00
8	£350.00	28/09/2017	25/01/2018	16	£35.00
9	£350.00	25/01/2018	18/07/2018	16	£35.00
10	£250.00	26/07/2018	01/11/2018	16	£25.00
11	£250.00	01/11/2018	06/03/2019	16	£25.00
12	£200.00	01/11/2018	17/04/2019	23	£20.00
13	£250.00	06/03/2019	10/07/2019	16	£25.00
14	£200.00	17/04/2019	25/09/2019	23	£20.00
15	£250.00	07/08/2019	28/11/2019	16	£25.00
16	£250.00	28/11/2019	01/04/2020	16	£25.00
17	£200.00	28/11/2019	20/05/2020	23	£20.00

In response to Ms G's complaint STF issued its final response letter (FRL) on 18 August 2021. It said that it only considered loans within the last six-year period as this was the period of time that it holds information about Ms G's lending.

In the FRL it explained that Ms G had taken 17 loans between 2015 – 2019. STF didn't uphold Ms G's complaint because it considered proportionate checks were undertaken.

Unhappy with this response, Ms G's representatives referred her complaint to the Financial Ombudsman Service.

An adjudicator, then reviewed Ms G's complaint and she concluded STF hadn't acted unfairly when it approved loans 1 – 4. Although, she did say, that she thought further checks needed to have carried out before loan 4 was advanced.

But, the adjudicator thought, that from and including loan 5 all future loans shouldn't have been granted. She said the loans were now harmful for Ms G and the repayments were no longer sustainable.

Ms G's representative acknowledged receipt of the adjudicator's assessment.

STF partially agreed with the adjudicator. It said that it would pay redress of £1,689.99 to Ms G which is compensation for loans 6 – 14.

However, STF didn't accept the findings made in relation to loan 5 or loans 15 – 17. In summary it said:

- Loans 1 – 4 weren't upheld, and STF can't see any change in circumstances which would lead it to conclude there was a problem with loan 5.
- Before 2019 a credit check was only carried out on before the first loan was granted.
- In 2019 the industry regulator carried out a review and implemented recommendations that stemmed from it. It says following this the regulator found all loans analysed to be "*100% compliant*".
- From late 2019, STF is able to evidence that it factored into Ms G's expenditure the findings of its credit checks which included any adverse information that it may have been aware of.

The offer in relation to loans 6 - 14 was put to Ms G who didn't accept it, she confirmed that she was happy to accept the adjudicator's assessment of the complaint.

As no agreement has been reached the complaint has been passed to me 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 irresponsible lending - including all the relevant rules, guidance and good industry practice - on our website.

Ms G has accepted the adjudicator's findings about loans 1 – 4 and STF has accepted that redress should be paid for loans 6 – 14. So, I now consider that there is no longer any disagreement about these loans and I will not make a decision about those loans in this decision but I have included loans 6 – 14 in the putting things right section at the end of this decision.

But I have kept in mind these loans when thinking about the overall lending relationship between Ms G and STF.

Instead, this decision will focus on what happened when loan 5 and loans 15 - 17 were advanced.

STF needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms G could repay her loans in a sustainable manner.

These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might suggest STF should have done more to establish that any lending was sustainable for Ms G. These factors include:

- Ms G 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);
- Ms G 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);
- Ms G 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 Ms G. The loan payments being affordable on a strict pounds and pence calculation might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case.

At the time these loans were advanced, STF was regulated by the Financial Conduct Authority, which has set out in its Consumer Credit Sourcebook ("CONC") that payments are sustainable if they are made without undue difficulties and in particular, 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 Ms G's complaint.

I haven't looked in any detail about whether the checks for loans 5 and 15 - 17 were proportionate and I'll explain why below.

Loan 5

I agree with the adjudicator, that by loan 5 I think Ms G was showing signs of financial distress and therefore the loans were unlikely to be sustainable for her.

I accept, based on the application form that STF has provided me for this loan that it may well have considered Ms G had sufficient disposable income to be able to afford the weekly repayment of £35. She had a declared weekly income of £399 and declared outgoings of £215. Leaving a weekly disposable income of £184.

I also know, because STF has told us, that no other checks were carried out at the time, for example a credit check.

I also agree with the adjudicator, that by loan 4, and so this applied to loan 5, that further in-depth checks ought to have been carried out. Given, the information Ms G had provided to STF, and thinking about other factors such as the time in debt and her borrowing history, I no longer think it was reasonable to have relied on what she had declared.

These further checks needed to verify Ms G's income and outgoings and could've been done a number of different ways, it could've asked to see copies of her wage slips or her bank statements.

I'm not able to say, exactly what STF may have seen had it carried out a proportionate check. But, to reach a fair outcome, I don't think I need to consider what a proportionate check may have shown because I'm satisfied that STF had sufficient information to be able to make an informed decision not to lend to Ms G. I say this for the following reasons:

- Ms G had been indebted to SFT for around 17 months without a break in lending.
- She was returning for new loans either on the same day or very shortly after her previous loans had been repaid.
- On three of her previous loans it had taken her longer than the contractual term to repay the loan – a sign that she may have been struggling to repay her loans.
- Ms G's borrowing wasn't decreasing, it remained flat as she borrowed the same amount for each loan but there were no signs that her indebtedness or need for credit was decreasing.

Taking these factors into account, and the fact Ms G had returned for further borrowing to extend her borrowing by another 16 weeks, I think STF ought to have realised the lending was now harmful for Ms G.

I've carefully considered what STF says about Ms G's circumstances being no different at this loan compared to the first four. But I disagree, I now think it had further information as to how Ms G was using her loans in terms of repayments and when new loans were being advanced. So, it had new information and emerging information that STF didn't have for Ms G when she started borrowing.

This has led me to conclude that this loan should be upheld, for the same reasons as explained by the adjudicator and for the reasons I've given above.

Loans 15 – 17

For these loans, I would say, that based on the details in the application forms, that STF could've reasonably concluded that Ms G would be in a position to afford the repayments she was committed to making.

Like loan 5, I still think the checks needed to go further for the same reasons as I explained above. However, it does look like at various points STF did undertake further checks which included checking the benefit payments and Ms G received as well as looking at bank statements. But, for the reasons that I've outline below, it ought to be have been apparent to STF that further lending wasn't sustainable.

For these later loans STF has shown that its affordability checks had changed. The format has changed, and it does look like STF by now, had started to use the credit checks to look at Ms G's expenditure to sees if there were other credit commitments. For example, loan 15 her credit expenditure (excluding other STF loans) was £194.36 per month.

So, it does look like, at least by the time of these loans that STF's checks went further then they may have previous gone. But, again, that doesn't mean the loans were sustainable for Ms G.

STF has provided a credit report summary for Ms G – but its undated so I don't know what period of time that it relates to or to which loan(s). But, I would say, assuming this report is for Ms G, that it does look like at some point Ms G had some problems repaying credit as the report shows an account in default and a County Court Judgement. But it looks like, as far as I can see that no further investigations were carried out to find out any further information about this.

It also says that a credit report would've been carried out. But STF has only been able to provide me with an example of the sort of information that it may have gathered, but it has not been able to provide the actual credit report data it received.

That isn't the end of the matter, on top of carrying out a proportionate check, STF also need to be mindful whether the loans were sustainable for Ms G, not just pounds and pence affordable.

So, in addition to assessing the circumstances behind each individual loan provided to Ms G, STF also needed to consider the overall pattern of lending and what unfolded during the course of its lending relationship with Ms G. Having looked at the overall pattern of STF's lending history with Ms G, I agree with our adjudicator that STF should reasonably have seen that further lending was unsustainable, this point had already been reached in this case, but by loan 15:

- At this point STF ought to have realised Ms G was not managing to repay her loans sustainably. Ms G had taken 14 previous loans over the last four years. In my view, Ms G's loan history up until this point clearly indicated that her underlying financial situation didn't seem to be improving, given her loans weren't significantly decreasing.
- Ms G continued to have problems repaying loans within the agreed repayment schedule. For example, it took 9 weeks longer than planned to repay loan 13. These earlier loans were for similar sums, so it's likely, that unless Ms G's situation had changed, that she'd also struggle to sustainable repay these loans.
- Ms G developed a pattern of taking new loans around the same time previous ones were repaid, for example, loans 11 and 14 and at times Ms G had more than one loan running at the same time. So, STF ought to have realised it was more likely than not Ms G, on these occasions, was having to borrow further to effectively cover a long-term financial need. To me, this is also indicative of her indebtedness not being sustainable.
- Ms G wasn't making any real inroads to the amount she owed STF. Loan 17 was taken out more than four and half years after loan one was advanced. But loan 16 was taken on the same day, so at the time Ms G actually owed STF £500 in capital on two loans with two different repayment terms. Ms G had paid large amounts of interest to, in effect, service a debt to STF over an extended period.

I think that Ms G lost out when STF provided loan 5 and loans 15 - 17 because:

- these loans had the effect of unfairly prolonging Ms G's indebtedness by allowing her to take expensive credit over an extended period and;
- the sheer number of loans and the time in debt was likely to have had negative implications on Ms G's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So, overall, I'm upholding the complaint about loans 5 – 17 and I'll go on to set out what STF should do to put things right.

I've also considered what STF has said about the review, but it hasn't provided any details of the exact date in 2019 this review occurred, or at what point the recommendations were put in place. Indeed, it also isn't clear to me how many loans were checked or whether any of Ms G's loans were actually checked.

So, I can't place any significant weight on this review, given I'm not entirely sure how it interacts with Ms G's loans. But what I would say, and what I've pointed out above, is that for loans 15 – 17 the types of checks that were carried out did change.

My remit is to consider the complaint, based on the individual circumstances and come to what I consider to be a fair and reasonable outcome. Given what I've seen, the overall pattern of lending was in my view significant enough to have led STF to not have granted these loans.

As I've said above, STF had already agreed to pay compensation for loans 6 – 14 and I've included what it has agreed to do in the 'putting things section' below.

Putting things right

In deciding what redress STF should fairly pay in this case I've thought about what might have happened had it stopped lending to Ms G from loan 5 as I think it ought to.

Clearly there are several possibilities, and all hypothetical answers to that question.

For example, having been declined this lending Ms G may have simply left matters there and not tried to obtain the funds from elsewhere – particularly as a relationship existed between her and STF which she may not have had with others. If this wasn't a viable option, she may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, she may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if she had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct.

From what I've seen in this case, I don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Ms G in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Ms G would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce STF's liability in this case for what I'm satisfied it has done wrong and should put right.

STF shouldn't have given Ms G loans 5 to 17 so in addition to what it has already agreed to pay it should:

A. STF should add together the total of the repayments made by Ms G towards interest, fees and charges on all upheld loans.
B. STF should calculate 8% simple interest* on the individual payments made by Ms G which were considered as part of "A", calculated from the date Ms G originally made the payments, to the date the complaint is settled.
C. STF should pay Ms G 'A' plus 'B'.
D. The overall pattern of Ms G's borrowing about loans 5 - 17 means any information recorded about them is adverse, so STF should remove these loans entirely from Ms G's credit file.

*HM Revenue & Customs requires STF to deduct tax from this interest. It should give Ms G a certificate showing how much tax has been deducted, if she asks for one.

My final decision

For the reasons I've explained, I uphold Ms G's complaint in part.

Short Term Finance Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 27 May 2022.

Robert Walker
Ombudsman