

## The complaint

Miss C, through a representative, says UK Credit Limited lent to her irresponsibly.

## What happened

Miss C took out a guarantor loan from UK Credit on 28 October 2019. It was for £6,000 over 60 months. The monthly repayment was £231.63 and the total repayable was £13,897.80. The loan was given on the basis Miss C had a guarantor who would be responsible for making the repayments if she failed to.

Miss C says UK Credit failed to carry out effective affordability checks and had it done so it would not have lent to her.

Our investigator recommended the complaint should be upheld. He said UK Credit's checks suggested Miss C may have been struggling financially and so it should have carried out further checks. Had it done so it would have seen this was the case, and so should not have lent to Miss C.

UK Credit disagreed. It said, in summary, without seeing additional information such as bank statements, we could not know whether the loan repayments were unaffordable for Miss C. It asked as the investigator's assessment is based on evidence UK Credit had at the point of sale, why is this a more proportionate check?

UK Credit asked for an ombudsman to review the complaint and so it was passed to me to make a decision. I reached the same the same conclusion as the investigator but I made different findings so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments or new information by 28 April 2022.

### *Extract from my provisional decision*

*UK Credit asked for some information from Miss C before it approved the loan. It asked for details of her income, her employment and her housing and living costs. It asked for a recent payslip to check her declared income. It reviewed her credit file to understand her credit history and her existing credit commitments. It also asked about the purpose of the loan which was debt consolidation. From these checks combined UK Credit concluded Miss C would have disposable income each month of £192.13 after making the loan repayment of £231.63 and so it was affordable.*

*I'm not wholly persuaded these checks were proportionate as Miss C was applying to borrow a significant amount of money from UK Credit. And she was entering into a long-term commitment and would need to make monthly repayments for five years. So I would expect that UK Credit would want to gather, and independently check, more detailed information about Miss C's financial circumstances – such as her actual outgoings - before it agreed to lend to her. However, I won't comment further on this as even based on the information it gathered I don't think UK Credit made a fair lending decision. I'll explain why.*

*Miss C had a relatively low monthly income of £835.98. She wanted to repay all her active debts (£1,379) with this loan in order to have just one repayment each month. And she was also going to settle a defaulted credit card (£390), using the remainder to part settle a debt (£7,483) that had a County Court Judgement (CCJ) against it. She was currently making no payments towards the latter two debts. So this plan meant she would be increasing her monthly outgoings on credit to a significant percentage of her salary – often a predictor of financial difficulties.*

*I think this ought to have concerned UK Credit as it knew from the credit check it carried out that Miss C was already struggling to meet her contractual repayments. She had defaulted on a credit card in March 2019, one of her credit cards was over limit and two months in arrears, and one of her mail order accounts was a month in arrears. A CCJ had been registered against Miss C in December 2018 and was for a large sum - £7,483. I appreciate UK Credit asked about these issues on the security call, but I don't find that any of Miss C's explanations were wholly clear – or should have given UK Credit the assurances it needed that her financial situation was stable.*

*Miss C had failed to stay on top of less than £1,800 of debt (putting to one side the CCJ that seems to relate to disputed costs following a property purchase) that she would have only needed to pay £53.07 a month to maintain. In addition, a large proportion of this high-cost loan was to settle delinquent debts where interest was most likely frozen, or substantially reduced. So I think UK Credit ought to have realised that in giving this loan and increasing Miss C's monthly credit commitments to £231.63 over a five-year term, there was a risk she would suffer financially and so the loan would not be sustainably affordable.*

*It follows I don't currently think UK Credit ought to have lent to Miss C.*

*I have not seen any evidence that UK Credit acted unfairly or unreasonable towards Miss C in some other way.*

I then set out what UK Credit would need to do to put things right.

Miss C's representative confirmed receipt of the provisional decision but supplied no new information. UK Credit did not respond.

### **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 approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any new evidence it follows I have no reason to change the findings or outcome I set out in my provisional decision. For the reasons set out above I find UK Credit was wrong to lend to Miss C.

### **Putting things right**

It's reasonable for Miss C to have repaid the capital amount that she borrowed as she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been given to her. So she has lost out and UK Credit must put things right.

It should:

- Remove all interest, fees and charges on the loan and treat all the payments Miss C made as payments towards the capital.
- If reworking Miss C's loan account will result in her having effectively made payments above the original capital borrowed, then UK Credit should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement\*.
- If reworking Miss C's loan account results in there being an outstanding capital balance UK Credit should try to agree an affordable payment plan with Miss C.
- Remove any adverse information recorded on Miss C's credit file in relation to the loan.

\*HM Revenue & Customs requires UK Credit to deduct tax from this interest. UK Credit should give Miss C a certificate showing how much tax it's deducted, if she asks for one.

### **My final decision**

I am upholding Miss C's complaint. UK Credit Limited must put things right as set out above.

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

Rebecca Connelley  
**Ombudsman**