

Complaint

Mr S has complained that Advanced Payment Solutions Limited (trading as “Cashplus” Bank) unfairly provided him with an unaffordable iDraft facility.

Background

Mr S was provided with an iDraft facility with a credit limit of £500 in May 2018.

One of our investigators reviewed what Mr S and Cashplus had told us. She thought that Cashplus shouldn't have provided the iDraft facility as it ought to have realised it was unaffordable. Cashplus disagreed so the case was passed to an ombudsman for review.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr S' complaint.

Having carefully considered everything provided, I'm upholding Mr S' complaint. I'll explain why in a bit more detail.

Cashplus needed to make sure that it didn't lend irresponsibly. In practice, what this means is Cashplus needed to carry out proportionate checks to be able to understand whether Mr S could afford to repay before providing him with his iDraft facility.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Mr S was provided with an iDraft facility with a credit limit of £500. And as this was a revolving credit facility Cashplus was required to understand whether Mr S could repay £500 within a reasonable period of time. I understand that Mr S was asked about his income and I understand that Cashplus' records suggest that he may have declared an annual income of around £22,400.00. Cashplus has also indicated that it carried out a credit check on Mr S.

This was Mr S' first interest bearing loan with Mr S. And it's fair to say that Mr S was being asked to make relatively low monthly payments over a reasonable period of time. In these circumstances, it could be argued that a more lighter touch check could have been proportionate. This is especially as Cashplus' enquiries into Mr S' circumstances suggested

that he was employed and earning around £22,400.00 a year. That said, I'm also mindful that any credit check Cashplus carried out is more likely than not to have shown that Mr S already had a significant number of creditors at this time and even had a number of short-term loans.

So even though Mr S was being provided with a facility with a relatively low credit limit and was required to repay it within a reasonable period of time rather than all in one go, the extent and scope of Mr S' existing indebtedness leads me to think that Cashplus needed to find out more about Mr S' expenditure before providing credit to him. Having looked at the information Mr S has provided about his circumstances at the time, I'm satisfied that once his regular expenditure was deducted from his income, he didn't have enough left over to sustainably repay his iDraft facility.

As this is the case, I find that Cashplus failed to carry out reasonable and proportionate checks before providing this facility and if it had carried out such checks it would have seen that the iDraft facility it provided to Mr S was unaffordable.

Mr S went on to pay interest and charges on a facility that he shouldn't have been provided with. So I'm satisfied that he lost out as a result of having Cashplus unfairly providing him with his iDraft facility. And I'm satisfied that Cashplus needs to put things right.

Fair compensation – what Cashplus needs to do to put things right for Mr S

Having carefully considered everything, I think it is fair and reasonable for Cashplus to put things right for Mr S in the following way:

- Reworking Mr S' iDraft balance to ensure that all interest, fees and charges added from the outset are removed; and

AND

- If an outstanding balance remains on the iDraft facility once these adjustments have been made Cashplus should contact Mr S to arrange a suitable repayment plan, Mr S is encouraged to get in contact with and cooperate with Cashplus to reach a suitable agreement for this.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance on Mr S' iDraft facility, then any extra should be treated as overpayments and returned to Mr S along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Cashplus should remove all adverse information from Mr S' credit file.

† HM Revenue & Customs requires Cashplus to take off tax from this interest. Cashplus must give Mr S a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr S' complaint. Advanced Payment Solutions Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or

reject my decision before 12 July 2022.

Jeshen Narayanan
Ombudsman