

The complaint

Miss W, who is represented by a third party, has complained to us about home credit borrowing she took out with Skyline Direct Limited (“Skyline”) between May 2019 and August 2020.

What happened

Miss W, who is represented by a third party, complains that the loans were unaffordable to her and so Skyline ought to have carried out better checks before lending to her.

The six loans were taken out as follows: £150 in May 2019 repayable over 20 weeks; £150 in August 2019 repayable over 30 weeks; £400 in November 2019 repayable over 30 weeks; £200 in January 2020 repayable over 30 weeks; £400 in July 2020 repayable over 30 weeks and finally £200 in August 2020 repayable over 30 weeks.

Miss W currently has an outstanding balance on the last two loans, having started getting into arrears in October 2020.

Our investigator looked into Miss W’s complaint and thought Skyline ought not have granted the July 2020 and August 2020 loans.

As Skyline has disagreed with our investigator’s findings, the complaint has been passed to me for a 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.

Skyline will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision.

These were all high-interest home credit loans for relatively low sums that were intended for short-term use. So I’ve looked at each loan with a view to identifying if there was a point at which Skyline should reasonably have seen that further lending was likely to be unsustainable and that this in turn could have a detrimental impact on Miss W’s financial circumstances.

Industry regulations say that payments are sustainable if they are made without undue difficulties and made on time, while meeting other reasonable commitments and without having to borrow to make them. If Skyline 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.

Having carefully looked at all the available evidence and information, I'm in agreement with our investigator and will be upholding from loan 5 granted in July 2020 and so also loan 6 granted in August 2020. I'll explain why.

Before making my merits finding I've considered each of the loans in turn, looking at what both Miss W and Skyline have told us. For the purpose of explaining my findings, which broadly reflect those of our investigator, I will first consider the four loans I am not upholding and look at the two I am in agreement ought not to have been approved.

Loans 1-4

I've kept in mind the nature of these loans, as well as the timing, the size and the other borrowing Miss W had in place at the time. Skyline had an obligation to ensure that it carried out proportionate checks before lending so that each loan was likely to be affordable with the ability for it to be repaid sustainably over the repayment period. I haven't seen full details of these checks although I know that Skyline typically carries out an income verification and credit check before granting each loan. But I think a proportionate check when a customer is taking out repeat borrowing would also need to involve getting an idea of a customer's wider financial circumstances in order to satisfy itself that they can pay back the loan.

So as I can't say whether Skyline's checks for these loans were proportionate I've looked at what such a check would likely have shown.

I've seen that Miss W was taking out other short term high cost borrowing during this time. But she was managing to repay her borrowing with Skyline alongside that sustainably. The bank statements I've seen show she was able to meet all her short-term loan repayments whilst managing her other committed expenditure and other day to day living costs.

Loans 5-6

I agree that by July 2020 Miss W's financial situation showed, as evidenced by the credit check, strongly suggests she was getting herself into a cycle of debt. Again, I don't have full details of the credit checks that Skyline carried out, nor the additional checks it's referred to. So I've looked at the pattern of lending history that was likely to be available to it at the time.

I note that loan 5 appears to have been taken out on the day that loan 3 was settled. At this point Miss W was also still paying off the previous £200 loan (loan 4) which means she'd had taken on a total £600 of borrowing with Skyline. Taking into account her other home credit borrowing, Miss W already had four ongoing home credit loans before she took this one.

By the time Miss W was taking out Loan 6, she appeared to be managing at least six other loans, including two that were with Skyline.

I agree that Miss W was showing an increasing reliance on home credit borrowing. Her pattern of borrowing strongly suggests she was attempting to make up for borrowing she already had with other loans. And I therefore think this repetitive borrowing was unsustainable in that it meant there was a real risk that with this level of commitment Miss W's financial situation would deteriorate.

I've seen Skyline's response to our investigator's view, including their comments relating to the purpose of the later loan borrowing – which may or may not be as stated in the application – and the proportion of her income taken up by her borrowing. But I think the key factor here is that the evidence and information I've seen shows that Miss W had slipped into a long-term cycle of borrowing with Skyline.

So I'm not satisfied that Skyline acted fairly in granting loans 5 and 6 as I think it ought to have seen that they were likely to be unsustainable.

Putting things right – what Skyline needs to do

To put things right for Miss W, I am planning to direct that Skyline should:

- refund all the interest and charges applied on loans 5 and 6; and
- add interest at 8% per year simple interest* on the above refunded sums from the date they were paid, if they were, to the date of settlement;
- remove any adverse payment information recorded on Miss W's credit file because of the interest and charges on loans 5 and 6. So, all entries about loans 5 and 6 should be removed from Miss W's credit file after they have been paid off.

Skyline is entitled to set off any monies arising from the redress against any monies Miss W may owe it, but to be clear this should only be in respect of the principal sum borrowed. Any unpaid charges and interest would need to be removed first and any payments made to either loan treated as if Miss W had paid down the principal.

If a third party owns any debt then to do the set off I have outlined above, Skyline will need to repurchase that debt. If it does not do that then it cannot do the set off and the full amount due will be repayable to Miss W directly. And in those circumstances the third party will need to be directed by Skyline to correct any adverse entries on Miss W's credit file, so far as it is able to do so.

*HM Revenue & Customs requires Skyline to deduct tax from this interest. Skyline should give Miss W a certificate showing how much tax Skyline has deducted, if she asks for one.

My final decision

For the reasons I've set out above, I uphold this complaint in part and direct that Skyline Direct Limited provides redress to Miss W as I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 27 February 2024.

Michael Goldberg
Ombudsman