

The complaint

Miss K complains that Harvey & Thompson Limited (“H&T”) irresponsibly gave her a fixed sum loan agreement she couldn’t afford to repay.

What happened

In July 2018, Miss K applied for a loan with H&T. She was given a loan of £350 to be repaid over 18 months. The monthly repayments were set at £59.52 and the total repayable was £1,130.88.

Miss K complained to H&T in August 2023 to say that the loan had been unaffordable to her. H&T responded to say that it didn’t think it had acted unfairly in lending to her. It said that it had completed affordability checks which included asking Miss K about her income and expenditure and these checks didn’t reveal any concerns.

Our investigator didn’t recommend the complaint be upheld. He was satisfied that the checks H&T completed didn’t show any affordability concerns.

As Miss K didn’t agree, the complaint was referred to me for a decision. I asked Miss K (via the investigator) to provide further evidence of her financial circumstances at the time H&T lent to her. However, she didn’t respond. I explained to Miss K that in the absence of the evidence about her circumstances that I had asked for, I was planning to conclude that I had insufficient evidence to say that H&T had acted unfairly or unreasonably towards her. I gave her further time to provide the requested information, but she didn’t respond. I’ve therefore reached a decision on this complaint on the evidence that is available to me.

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.

Prior to lending to Miss K, H&T needed to ensure it completed adequate affordability checks to ensure the lending wouldn’t cause Miss K financial difficulty. There isn’t a set list of checks H&T needed to complete, the relevant rules stated that the checks needed to be proportionate to the lending decision.

This was a relatively small amount of borrowing at £350. However, it was to be repaid over an 18 month term at an APR of 491.5%. Further, more than two thirds of what Miss K was paying back to H&T was made up of interest. So, although it was a low amount of capital borrowed, I think proportionate checks ought to have been reasonably thorough given the total repayable, the cost of borrowing and the term.

H&T says it asked Miss K about her income and her key expenditure as well as completing a credit check. It says these checks revealed no concerns about her ability to repay the borrowing. However, I don’t think these checks went far enough nor were they proportionate in the specific circumstances of this case.

While I accept the amount Miss K was seeking to borrow was modest, the total repayable arguably wasn't (especially when compared to her declared income) and the charge for credit was substantial.

Miss K declared a monthly income of £1,000 and monthly expenses of £400. I can't see that H&T made any attempt to verify this information and given what Miss K had declared, I think it ought to have questioned this information before lending.

Miss K declared she had no active credit commitments that she was paying towards, yet H&T's own credit check showed she had nine active credit facilities open (although the status of each one is unclear from what has been provided) and she had some history of payment difficulties on her accounts (again, the exact nature of this is unclear from what has been provided). I note also that Miss K declared she was renting and that she only paid £50 per month towards rent and had no costs for utilities.

I think it is also relevant to highlight that Miss K was taking out a loan for £350 and H&T had calculated she had a monthly disposable income of £600. If that were true, it would seem odd for Miss K to need to take out a loan of £350 over an 18 month term at such a significant interest rate. All this contradictory information ought to have led H&T to question the information it had gathered about her ability to sustainably repay this loan. I therefore think a proportionate check ought to have included some further verification of her financial circumstances rather than just relying on what Miss K had said.

As I've set out earlier in this decision, I asked Miss K to provide further evidence of her financial circumstances at the time the loan was taken out. This was so that I could determine what information H&T might likely have discovered had it completed proportionate affordability checks. As Miss K hasn't provided the evidence that has been asked for, I can't reasonably conclude that H&T made an unfair lending decision.

While I don't think H&T's checks went far enough, it's possible that proportionate affordability checks wouldn't have revealed any affordability concerns either. If that's the case, then Miss K is not in any different position now than what she would be in had H&T done what it should have.

I accept there is information in H&T's checks to show Miss K may have been struggling financially, such as an outstanding county court judgement debt and a suggestion of some recent adverse credit reporting. But this isn't enough on its own to show that H&T shouldn't have given her any loan at all. The information is too incomplete to show the extent of Miss K's indebtedness and whether this was too much, nor does it show me in enough detail exactly how recent some of the adverse information was and what it was recorded against. I also don't have any understanding of Miss K's true income and essential expenditure at the time to be able to determine a) whether the loan was affordable to her and b) whether proportionate checks would likely have revealed that to be the case.

I understand this will be disappointing for Miss K, but I haven't seen enough to persuade me that H&T made an unfair lending decision, and I therefore don't think it needs to do anything to put things right.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 13 August 2024.

Tero Hiltunen
Ombudsman