DRN-4586223

The complaint

Mr H complains through a representative that Valour Finance Limited trading as Savvy.co.uk ("Valour") provided him with a loan without carrying out appropriate affordability checks.

What happened

Mr H received one loan from Valour on 3 October 2022 for £1,200. Mr H was due to make 26 fortnightly payments of £91.01. The latest information available to me suggests an outstanding balance remains due.

In response to the complaint, Valour said it hadn't made an error when it approved the loan because proportionate checks had been carried out. Unhappy with this response, Mr H's representative referred the complaint to the Financial Ombudsman.

The complaint was considered by an investigator and she concluded Valour shouldn't have provided the loan. She said the credit check results Valour received ought to have led it to carry out further checks. Had it done so, perhaps by looking at his bank statements, Valour would've likely discovered that he was using a significant portion of his income each month towards gambling. Mr H also had multiple loans with other lenders which suggested he wouldn't be able to repay this loan sustainably.

Valour didn't agree with the investigator's assessment and made the following points:

- Mr H may have had other bank accounts that the investigator hadn't considered as part of her assessment.
- There wasn't any clear indication from what Valour knew to suggest that Mr H may have been financially struggling.
- Mr H declared he lived at home with parents and so had no significant bills to cover and so he had enough disposable income to be able to afford the loan.
- The negative markers on Mr H's credit file should remain because accurate information needs to be presented to the credit reference agencies.
- The industry regulator should consider incorporating gambling data into credit files.

As no agreement could be reached the complaint was passed to me and I issued a provisional decision which provided my reasons as to why I was intending to conclude that Mr H's complaint ought to *not* be upheld.

Both parties were asked for further submissions as soon as possible, but in any event no later than 26 January 2024.

Neither Valour, Mr H nor his representative provided any new submissions for my considerations.

A copy of the provisional findings follows in smaller font and forms part of this final decision.

What I said in my provisional decision:

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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Valour had to assess the lending to check if Mr H could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Valour's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr H's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Valour should have done more to establish that any lending was sustainable for Mr H. These factors include:

- *Mr H 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);*
- *Mr H 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);*
- *Mr H 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 Mr H. As there was only one loan I agree with the investigator that this wouldn't apply in this complaint.

Valour was required to establish whether Mr H could sustainably repay the loan – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr H was able to repay his loan sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr H's complaint.

Before the loan was approved, Valour took details of Mr H's income and expenditure as well as carrying out a credit search. Valour received details from Mr H about his income, which he declared to be £1,700 per month. For a first loan it was reasonable for Valour to have relied on what it was told by Mr H.

As part of his applications Mr H provided Valour with details of his living costs and as part of the affordability assessment it used a figure of £1,290 per month – this left disposable income of £410 per month. These costs were then discussed with Mr H in a telephone call. As a result of these checks, Valour believed Mr H's has sufficient disposable income to afford his repayments for both loans.

Before the loan was approved Valour also carried out a credit search and it has provided the results it received from the credit reference agency. It is worth saying here that although Valour carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. But what Valour couldn't do is carry out a credit search and then not react to the to the information it received. Valour was also entitled to rely on the results it was given as it didn't have anything to suggest the results were in anyway inaccurate.

Valour had recorded that Mr H was spending around £552 per month on his existing credit commitments and given the results of the credit search this seems broadly accurate given the credit cards, mail order account, loans and communication contracts that I can see.

From the information it received, it knew that Mr H had a total of five active loans which were costing him £492 per month. All of the loans were up to date with no adverse payment information recorded against them. In addition, the loans had been opened in November 2020, September 2021, February 2022, June 2022 and August 2022.

So, the loan history didn't indicate that Mr H was regularly taking out new short-term loans, indeed, one of the loans was almost two years old, which would indicate that it wasn't a payday loan and the loans that Mr H did have appeared to be being repaid without any undue difficulty.

I do think, given the number of loans that its arguable, that perhaps further checks ought to have been conducted but given what else Valour knew – such as Mr H living at home with parents, the fact his existing credit was up to date and he had sufficient disposable income. Then I'm minded to conclude that for a first loan, it was just about reasonable for Valour to rely on the information it had, rather than making more detailed checks.

I want to acknowledge, that had Valour reviewed Mr H's bank statements to obtain a full understanding of what his finance position was – to be clear I do not think it needed to do this. Then I do think it would've likely decided that the gambling was taking up too much of his income and therefore not have lent. But there was no indication in what Mr H told Valour, or what it found out from the credit reference agencies to suggest he was using income or loans to gamble. This means I wouldn't have expected Valour to have known about this.

It knew that historically Mr H had encountered some problems in 2020 making payments towards what looks like mobile phone contracts but as this was over two years before the loan was advanced, I think it would've been reasonable for Valour to disregard this considering that there hadn't been any obvious repayment problems since then.

So, taking everything into account, there wasn't, in my view, anything solely from the credit file which would've led to Valour declining Mr H's application or to have prompted it to carry out further checks.

There was also nothing else in the information Valour either received or was told that I've seen that would've led it to believe that it needed to go further with its checks – such as verifying the information Mr H had provided.

Given it was early in the lending relationship, it was reasonable for Valour to have relied on the information Mr H provided about his income and expenditure as well as the credit check results which showed sufficient disposable income to afford the repayments, he was committed to making. There also wasn't anything else to suggest that Mr H was currently having financial difficulties or that the repayments would be unsustainable for him.

An outstanding balance does appear to be due, and I would remind Valour of its obligation to treat Mr H fairly and with forbearance.

I am therefore indenting to not uphold his complaint.

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.

As neither party has provided any new submissions, I see no reason to depart from the findings that I made in the provisional decision. I still think, based on the information Valour gained from its affordability check that it was reasonable for it to have advanced the loan to Mr H.

An outstanding balance does remain due, and I would once again remind Valour of its obligation to treat Mr H fairly and with forbearance.

My final decision

For the reasons I've explained above and in the provisional decision, I'm not upholding Mr H's complaint.

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

Robert Walker
Ombudsman