DRN-4668201

The complaint

Miss P complains that Chetwood Financial Limited trading as BetterBorrow was irresponsible to agree a loan for her.

What happened

BetterBorrow agreed a loan of £10,000 for Miss P in July 2022. The total amount owed was £15,344.82 to be repaid at £319.69 a month over 48 months. Miss P met her repayments on time and made some large payments in March and April 2023. The loan was fully repaid by July 2023.

Miss P complained to BetterBorrow that it didn't carry our sufficient checks before lending to her and it should have seen that the loan was unaffordable. Miss P said she had an overdraft and several credit cards and struggled to meet her repayments.

BetterBorrow said that it carried out an affordability assessment before lending to Miss P to check she could afford the repayments. It relied on information she provided, information from her credit file and statistical data and concluded that the loan would be affordable for her. It didn't uphold Miss P's complaint and she referred it to us.

One of our investigators looked into the complaint and recommended that it be upheld. They concluded that BetterBorrow should have looked into Miss P's finances in more depth before lending to her and, had it done so, would have seen that the loan would be unaffordable because of how much existing debt she had.

BetterBorrow didn't agree with this recommendation and asked for the complaint to come to an ombudsman to review and resolve and it came to me. I issued a provisional decision on 6 February explaining why I didn't plan to uphold Miss P's complaint. I shared the information I'd relied on and allowed time for both parties to comment on what I'd said and provide any new information for me to consider when making my final decision. Miss P didn't agree with my provisional conclusions and provided further comments and information.

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 before, when making my decision, I've had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as BetterBorrow, need to abide by. BetterBorrow will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, BetterBorrow needed to check that Miss P could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and take into consideration Miss P's circumstances. BetterBorrow needed to bear in mind that certain factors might point towards a more rigorous assessment and others towards a less rigorous one when deciding what type of creditworthiness assessment was required. The overarching requirement was that BetterBorrow needed to pay due regard to Miss P's interests and treat her fairly.

The questions I've considered are whether or not BetterBorrow carried out a proportionate affordability check before lending to Miss P? If not, what would a proportionate check have shown? Did the checks BetterBorrow carried out show anything of concern and ultimately, did it treat Miss P fairly and with due regard to her interests when it offered her the loan?

I said in my provisional decision:

"BetterBorrow provided the information it relied on in its assessments which included Miss P's application form. It explained that it verified her income using an online credit reference agency tool which analysed current account turnover. It used information from Miss P's credit file to estimate her monthly debt repayments and estimated her other expenses using national statistical datasets.

Miss P said in her application form that her net monthly income was £3,051 and BetterBorrow's online check yielded a high confidence in this figure as it had been consistent over the previous six months. Its credit file check showed that Miss P had a hire purchase agreement with a balance of £6,870 and repayments of £175. She also had seven credit cards and a mail order account with balances of over £11,000. BetterBorrow said there was no adverse information showing against these accounts. BetterBorrow estimated that Miss P spent £718 a month repaying her debts, £617 on her living costs and £750 on housing, which left enough money to meet her loan repayment of £319.69.

In some circumstances I'd consider the checks BetterBorrow carried out to be proportionate but I'm afraid I don't in this case. Although Miss P didn't have any adverse information on her credit file she did have over £11,000 of existing credit card debt. As BetterBorrow noted, agreeing this loan could commit Miss P to spending more than £1,000 a month, or 34% of her declared income, on repaying debt. I think these circumstances should have prompted a more rigorous check to reasonably assess whether Miss P would be able to meet her repayments without difficulty.

Miss P has provided her bank statements and I've reviewed these. To be clear, I'm not suggesting this is the information BetterBorrow ought to have used, but it is the information I have and I think it's reasonable for me to rely on it to consider what a proportion check might have revealed.

The statements show that Miss P's income was around what she'd declared and she was also in receipt of child benefit of around £90 a month. Miss P's rent was £750 but her living costs were higher than the figure BetterBorrow relied on at around £1,400. As mentioned, BetterBorrow estimated that Miss P spent around £700 each month repaying her debts. This is consistent with the figures shown on Miss P's credit file, though I can see from her bank statements that she spent more than this because she sometimes made large payments towards her credit cards and was also making payments to buy-now-pay-later companies.

Miss P provided a recent copy of her credit file. There wasn't any adverse information showing on this such as defaulted accounts or county court judgements. It does show that Miss P took out cash advances on one of her credit cards the previous year and had missed some payments on another. But I don't think this information alone would, or should, have led BetterBorrow to decline Miss P's application.

The purpose of the loan as noted on the application form was to repay debt. BetterBorrow confirmed that it didn't discuss this with Miss P. Miss P's credit file shows a zero balance (or close to it) on three of her credit card accounts in July 2022. It seems to me that Miss P used the loan to pay off her credit cards with the highest balances and the highest repayments, a total of over £8,000 altogether. I think it's likely that Miss P would have told BetterBorrrow she planned to use the loan to repay her credit card debts, had it asked. This left Miss P with reduced balances on her revolving credit accounts and her hire purchase agreement.

Having considered this point carefully, I don't think a proportionate check would have led to a different lending decision. If everything had gone as it should have and BetterBorrow had looked into Miss P's circumstances further before lending to her, I think it would have continued with its loan offer. The repayments seemed affordable for her going forwards, and there weren't any obvious signs that Miss P was having difficulty managing her existing finances.

The statement of account shows that Miss P met her repayments on time and made some large payments in March and April 2023. Altogether Miss P repaid about £11,400 and the loan was fully repaid by July 2023. Miss P said that she borrowed to repay the loan to make her monthly payments more affordable however, I haven't seen any indications in the information I have that Miss P had difficulty meeting her repayments."

In response to my provisional decision, Miss P said that:

- BetterBorrow should have gone further in its checks and asked her for information about her living costs. She wasn't left with any money at the end of the month and this is shown on her bank statements.
- BetterBorrow knew that she was applying for a loan to consolidate her other debts and therefore as a responsible lender it should have asked for details of the debts she was planning on consolidating and should have only given her the loan on the proviso that these debts would be closed.
- She was spending more on her debt repayments each month than BetterBorrow's estimate of £700, which didn't include repayments towards her £500 overdraft or her buy-now-pay-later accounts.
- She wouldn't have paid for things using a buy-now-pay-later method of payment if she had the disposable income to pay for things up front.
- She was only able to meet her monthly repayments because she was using her credit cards for things such as food and fuel etc so she could pay her bills on time and get through the month and this shows the loan was unaffordable.
- The large repayments against the loan were due to her taking out another loan, at more affordable repayments to clear the loan with BetterBorrow.

Miss P provided account statements for her some of her credit cards which support what she's said.

In my provisional decision, I agreed with Miss P that BetterBorrow should have carried out further checks before agreeing the loan and I considered what reasonable and proportionate checks might have shown. I also agreed that Miss P was spending more repaying her debts each month than BetterBorrow estimated and mentioned her buy-now-pay-later payments. I appreciate that Miss P feels she would have paid for these items outright rather than spread the cost over several payments if she had more money available to spend, but I don't think BetterBorrow should have automatically concluded that she was having financial difficulty solely because of her use of buy-now-pay-later options.

I said in my provisional decision that if BetterBorrow had asked Miss P about the debts she planned to consolidate, it's likely she would have explained what they were. Miss P did use the loan to reduce her credit card debts and there isn't anything in the relevant regulations to say that BetterBorrow should only have agreed to the loan on the proviso that she then closed down the accounts in question. I don't think it would be fair or reasonable to expect that this should have happened here.

I provisionally concluded that BetterBorrow wouldn't have thought Miss P was in financial difficulty because her credit file didn't show any adverse information, apart from some cash advances on one credit card taken out the previous year and some missed payments on another. I accept that Miss P was using her credit cards to meet some of her living costs, but BetterBorrow wouldn't have learnt this from her credit file or her bank statements. While I've concluded that BetterBorrow should have carried out a more rigorous check to understand Miss P's income and non-discretionary expenditure before lending to her, I don't think a proportionate check should have extended to examining Miss P's credit card account transactions.

Having looked at everything again, and considered what Miss P said in response to my provisional decision, my view of her complaint hasn't changed. I haven't found that BetterBorrow was irresponsible to have agreed to lend to Miss P on this occasion or treated her unfairly and so I am not upholding her complaint. I appreciate that this will be very disappointing for Miss P and I'm sorry I can't provide her with the outcome she was hoping for.

My final decision

For the reasons I've explained above I am not upholding Miss P's complaint about Chetwood Financial Limited trading as BetterBorrow and it doesn't need to take any further action in this regard.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 5 April 2024.

Michelle Boundy
Ombudsman