

The complaint

Mr M complains that Chetwood Financial Limited trading as BetterBorrow lent irresponsibly when it approved his loan application.

What happened

In December 2021 Mr M applied for a £12,000 loan with BetterBorrow. In his application, Mr M said he was a homeowner with a mortgage and employed with an income of £2,000 a month. BetterBorrow carried out a credit search and found Mr M owed around £2,500 in loan agreements and had credit cards with around £2,600 outstanding. BetterBorrow applied £414 for housing costs (mortgage payment), £572 as an estimate of Mr M's living expenses and £293 for his existing credit commitments each month. BetterBorrow added the new loan payment of £442 to Mr M's existing commitments and says that left him with around £282 of disposable income. The loan was approved and funds released to Mr M.

Mr M made payments of £437.08 towards the loan but it then fell into arrears. The loan was ultimately closed at default by BetterBorrow and passed to a third party business.

Mr M later complained that BetterBorrow had failed to carry out the necessary checks before approving his loan and had lent irresponsibly. BetterBorrow issued a final response but didn't uphold Mr M's complaint. BetterBorrow said it had carried out the relevant checks and didn't agree it had lent irresponsibly.

An investigator at this service looked at Mr M's complaint. They thought that by approving a loan of £12,000 in addition to Mr M's existing commitments, which totalled around £5,000, when compared against his income it should've caused BetterBorrow to carry out more comprehensive checks. The investigator thought additional checks, like reviewing Mr M's bank statements would've been appropriate. When the investigator reviewed Mr M's bank statements from the period before he applied for the loan they found his income varied considerably and that deductions were being made from his bank account to pay staff working for a family business. The investigator thought that better checks by BetterBorrow would've most likely led to it declining Mr M's application and upheld his complaint, asking it to refund all interest, fees and charges applied since the start of the loan.

BetterBorrow asked to appeal and explained it's an "online" lender and doesn't request documents, like bank statements, in support of loan applications. BetterBorrow explained it verifies the information included in an application by completing online checks instead. BetterBorrow noted Mr M had an overdraft but says it was only £204 overdrawn at the point of application. BetterBorrow advised that it didn't agree the wages being paid from Mr M's bank account could fairly be considered as a monthly commitment or essential spending so didn't agree it needed to consider it as part of its lending assessment.

As BetterBorrow asked to appeal, Mr M's complaint has been passed to me to make 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.

Before agreeing to lend, the rules say BetterBorrow had to complete reasonable and proportionate checks to ensure Mr M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

In response to the investigator, BetterBorrow has explained that when it looks at a loan application it seeks to verify the information found online rather than by requesting evidence, like bank statements. Whilst I understand BetterBorrow's normal approach, I also have to take the relevant regulations into account. And I'm satisfied there are circumstances where a different approach may be more appropriate before proceeding with an application. So whilst I note BetterBorrow's comments, I'm satisfied that there are occasions where further investigations are reasonable before approving a loan application.

I agree with the investigator that the information BetterBorrow had about Mr M's circumstances should've prompted it to carry out some additional checks before proceeding with the application. Mr M already had unsecured debts that totalled around £5,000 at the point of application and I note he also had an overdraft facility that doesn't appear in the figures BetterBorrow has provided in connection with his application. By approving a further £12,000, Mr M was put in a position where he owed around £17,000 which was close to his annual income.

I note that BetterBorrow also found Mr M had adverse information recorded on his credit file and found that around two years before his application he was party to a payment arrangement on some of his commitments. So BetterBorrow was aware that Mr M had previously had difficulties repaying credit when he applied for the loan.

I also think it's fair to note that repayments for the loan were £437.08 a month which would've represented a significant portion of Mr M's declared monthly income. I appreciate that BetterBorrow's calculations indicated Mr M would have around £282 left as disposable income each month. But given the above points, I'm satisfied a more comprehensive approach would've been appropriate for Mr M.

As noted above, there's no set list of checks a lender has to complete. One option would be to verify the information provided in an application by looking at the bank statements. Doing so can give a clearer picture of an applicant's circumstances. Mr M has supplied bank statements for the months before his application was made.

Mr M's bank statements show that his income varied considerably in the months before he applied for the loan. They also show that a family business was running payments both into and out of Mr M's current account for business purposes. For instance, I can see in all the months for the statements provided that Mr M was paying wages on the family business' behalf to third parties. They also show that some payments made into Mr M's account were quickly used to cover business expenses and services after being deposited. I'm satisfied that a thorough review of Mr M's statements would've shown that whilst Mr M was receiving funds into his account each month that were at times higher than the figure noted in the application, they also show that he was using a reasonable portion of those funds to support the family business and that it wasn't available for him to use as his own.

I would add that BetterBorrow's view that Mr M's overdraft was only around £204 when he applied wasn't representative of the normal balance. The statements I've seen show that Mr M was regularly overdrawn in excess of £1,600. Whilst there were periods where Mr M was in credit, the majority of the time his account was significantly overdrawn.

Taking all the available information into account, I haven't been persuaded that BetterBorrow lent responsibly when it approved Mr M's loan application. In my view, the level of checks completed wasn't proportionate to the loan or Mr M's circumstances. And I'm satisfied that a more comprehensive approach would've most likely led BetterBorrow to decline Mr M's application as unaffordable. Whilst I haven't used this point when reaching my decision about the nature and level of checks BetterBorrow completed, I think it's reasonable to note that Mr M's loan quickly fell into arrears and was closed after only four payments being made.

As I haven't been persuaded BetterBorrow lent responsibly I'm upholding Mr M's complaint and directing it to refund all interest, fees and charges. I'm also telling BetterBorrow to remove any adverse information recorded on Mr M's credit file about the loan once the balance has been repaid.

My final decision

My decision is that I uphold Mr M's complaint and direct Chetwood Financial Limited trading as BetterBorrow to settle as follows:

- Add up the total amount of money Mr M received as a result of having been given the loan (removing any interest applied). The repayments Mr M made should be deducted from this amount.
- If this results in Mr M having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). † BetterBorrow should also remove all adverse information regarding these loans from Mr M's credit file.

Or

- If any capital balance remains outstanding, then BetterBorrow should attempt to arrange an affordable and suitable payment plan with Mr M. Once Mr M has cleared the balance, any adverse information in relation to these loans should be removed from his credit file.

† HM Revenue & Customs requires BetterBorrow to take off tax from this interest. BetterBorrow must give Mr M a certificate showing how much tax it's taken off if he ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 June 2024.

Marco Manente
Ombudsman