DRN-4853753

The complaint

Miss M complains Inclusive Finance Limited, trading as Creditspring, lent to her irresponsibly.

What happened

Miss M entered into three credit agreements with Creditspring. They worked on a membership basis, so each month Miss M paid a fee which gave her access to a set number and value of credit drawdowns. These had no interest charges applied to them.

In August 2021 Miss M agreed to pay a fee of £8 a month for 12 months, which entitled her to drawdown two advances of £250 during a 12-month minimum term. Each advance would be repayable over six monthly instalments of around £41.66 (excluding the fee).

In June 2022 Miss M agreed to pay a fee of £10 a month for 12 months, which entitled her to drawdown two advances of £500 each during a 12-month minimum term. These advances would be repayable over six monthly instalments of around £83.33 (excluding the fee).

In November 2022 Miss M agreed to pay a fee of £12 a month for 12 months, which entitled her to drawdown two advances of £500 each during a 12-month minimum term. These advances would be repayable over six monthly instalments of around £83.33 (excluding the fee).

Miss M says since taking out these loans she has spiralled into debt taking out non-secured and payday loans, just to keep up with payments and other bills and debts she had during this time. She is now in a debt management programme. If Creditspring asked for her credit file at the time of lending it would have seen she had maxed out five credit cards and taken on two other pay day loans during this time. Her finances at that time were clearly already in distress.

Creditspring says it carried out appropriate credit and affordability checks that showed Miss M could afford the credit. And as she provided the income and expenditure figures the onus was on her to make sure they were accurate. However, it offered to waive the remaining balance of the fees she owed, with no admission of liability. Unhappy with this response Miss M brought her complaint to this service.

Our investigator upheld Miss M's complaint. She found Creditspring's checks were not proportionate and better checks would have shown Miss M's finances were under pressure.

Creditspring initially disagreed with this assessment. After the investigator provided the evidence she had relied on – Miss M's full credit file – Creditspring did not respond.

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.

Our approach to complaints about irresponsible/unaffordable lending is set out on our website. I have taken it into account here.

Creditspring needed to take reasonable steps to ensure that it didn't lend to Miss M irresponsibly. It should have completed reasonable and proportionate checks to satisfy itself that Miss M would be able to pay the loan in a sustainable way. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

This means to decide Miss M's complaint I need to consider if the lender's checks were proportionate, if not what would proportionate checks have shown, and ultimately did it make fair lending decisions. I will also consider if it acted unfairly towards Miss M in some other way.

Creditspring says it evaluated the affordability of the borrowing using both self-reported information from Miss M and information from her credit file. For the first agreement it says Miss M reported her income as £1,631 a month and after deducting her declared outgoings expenses (rent, utilities, food, transport) and and her existing credit commitments, it calculated Miss M had £595 of disposable monthly income remaining. Based on this, Creditspring concluded Miss M could afford the monthly instalments of around £49.66 to repay the advances and fee.

Creditspring also did a credit check, and it says it evaluated Miss M's credit report against various flags such as late repayments, CCJs and other major events. I've looked at the results of this check but have struggled to understand how Creditspring used it to form a complete picture of Miss M's financial stability. I say this as the credit reference agency Creditspring used was unable to report on a number of key data points. But it did show Miss M had 13 active accounts and had contractual repayments each month of £150.

In the round I think Creditspring ought to have carried out further checks. I say this for a number of reasons – given Miss M's disposable income it seems incongruous she needed to borrow £250 and her credit repayments seemed low for the number of active accounts. To be clear, I am not saying either of these factors were reasons to decline her application, rather they were things that needed to be better understood if Creditspring was to have the assurances it needed that its lending would not cause financial harm.

In cases like this we look at the complainant's bank statements from the relevant period and/or their full credit file. I am not saying Creditspring had to exactly this but it is a reliable way for me to understand what better checks would most likely have shown. In this case I only have sight of the full credit file. Creditspring argues it would have been redundant to carry out a second credit check. But as I've said, I am not saying it had to do this, rather that it is evidence available to help me understand what better checks would have most likely revealed. And from this I can see that Miss M's finances were again under pressure. And this follows a period in 2018 and 2019 when she defaulted on a number of accounts that remained unsettled. I say this as in August 2021 she was six months or more in arrears on three high-cost loans that had been opened in quick succession.

Overall, I am satisfied that better checks would have shown that whilst the agreement appeared affordable on a pounds and pence basis, there was a high risk it would cause Miss M financial harm either through having to borrow to repay or suffering some other adverse financial consequences.

So I find Creditspring was wrong to approve the first credit agreement.

It follows, that unless checks at the time of the second and third agreements conclusively showed Miss M finances had stabilised it was irresponsible to lend then to Miss M. And I have not seen evidence that this was the case. For example, at the time of the second agreement Creditspring's own credit check showed Miss M now had five agreements in unsettled debt arrangements and at the time of the third she was overlimit on her credit cards and had continued to open more credit accounts.

It follows I find Creditspring was wrong to extend any borrowing to Miss M.

Putting things right

I've concluded that Creditspring was irresponsible to approve the credit agreements for Miss M so she shouldn't have to pay any fees for the money she borrowed under those agreements.

So Creditspring should:

Cap the total amount Miss M repaid/has to repay to the capital she borrowed, in other words £2,500; and

- if Miss M has paid more than this Creditspring needs to refund these overpayments to her along with 8% simple interest per annum* from the date of payment to the date of settlement of this complaint. In this case Creditspring needs to remove any negative information about these agreements from Miss M's credit file; or
- if, after reworking the accounts, Miss M has not yet repaid the capital, then Creditspring needs to treat her fairly and with forbearance and due consideration regarding her outstanding capital balance. Once the capital has been repaid, then Creditspring should remove any negative information from her credit file.

* HM Revenue & Customs requires Creditspring to take off tax from this interest. Creditspring must give Miss M a certificate showing how much tax it's taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss M in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

I am upholding Miss M's complaint. Inclusive Finance Limited, trading as Creditspring, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 7 August 2024.

Rebecca Connelley
Ombudsman