

The complaint

Mr M complains that Salad Finance Limited lent to him irresponsibly.

What happened

Mr M took one loan in November 2023 for £500. The monthly repayment cost was £57.52 for 12 months. The total to repay including interest was £689.58.

After Mr M had complained Salad Finance sent to him its final response letter (FRL) dated 16 May 2024. It said that Mr M had missed his first four Direct Debit payments for the loan and so the account was terminated and passed to a third party collection agency. It has received no payments from Mr M either. In the FRL Salad Finance explained why it was not upholding his complaint.

Mr M referred it to the Financial Ombudsman in late May 2024 where one of our investigators considered the complaint and did not uphold it.

Mr M did not raise any specific additional point but asked for an ombudsman to review it so the complaint was passed to me to decide.

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.

Taking into account the relevant rules, guidance and good industry practice, I think what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Salad Finance completed reasonable and proportionate checks to satisfy itself that Mr M would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr M would've been potentially able to do so?

If I determine that Salad Finance did not act fairly and reasonably in its dealings with Mr M and that he has lost out as a result, I will go on to consider what is fair compensation.

The checks had to be "borrower focused" – so Salad Finance had to think about whether repaying the loan would be sustainable. In practice this meant that it had to ensure that making the repayments on the loan wouldn't cause Mr M undue difficulty or significant adverse consequences.

That means Mr M should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payments he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Salad Finance to approach the loan application from the perspective of the likelihood of getting its money back. Salad Finance had to consider the impact of the loan repayments on Mr M. Checks also had to be 'proportionate' to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the

consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

I think that a reasonable and proportionate check ought generally to have been more thorough in the following circumstances:

- the lower a consumer's 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 higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

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

I have the advantage of financial information from Salad Finance which included detailed reports and transaction lists using Open Banking. These covered the three months leading up to Mr M's application for the loan in November 2023.

Salad Finance has explained that it did not obtain a credit report. There is no regulatory requirement to obtain a credit report. Salad Finance did check for issues surrounding County Court Judgments, and insolvencies such as bankruptcy or being in an IVA. It found no such records. And using the analysis of the Open Banking information there were no signs of gambling which was another factor Salad Finance explained that it looked for when assessing applications for credit.

Salad Finance had verified Mr M's regular salary and employment status. There did not appear to be anything that was likely to cause it concern.

I realise that Mr M thinks that Salad Finance ought to have had all the information he may have had before approving the loan. But the regulations covering responsible lending for regulated firms do not require that.

I have decided on the evidence, the checks carried out by Salad Finance were proportionate and I would not have expected it to have done more than it did before lending £500 to a new customer with repayments of around £57 a month. Even if I account for the length of term, still I think it did enough.

I noted that Mr M had applied for a loan with Salad Finance for £1,000 in May 2023, a few months before taking this loan, and it had been declined. That was six months earlier and Salad Finance must have assessed Mr M's financial situation then and recognised he could not repay that loan at that time. But for this loan which was much less at £500, it seems that Salad Finance did carry out proportionate checks and it considered it responsible to lend.

Mr M has not explained why it is he thinks that the checks were inadequate. Mr M has not provided anything to demonstrate what he thinks Salad Finance missed that meant he was unable to afford the £57 each month.

Using the evidence I have, I am satisfied that Salad Finance carried out the proportionate checks I would have expected it to have done and therefore I do not uphold Mr M's complaint.

My final decision

I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or

reject my decision before 11 September 2024.

Rachael Williams
Ombudsman