

Complaint

Mr W has complained about a loan Creation Consumer Finance Ltd (“Creation”) provided to him. He says the loan was unaffordable and so shouldn’t have been provided to him.

Background

Creation provided Mr W with a loan for £7,500.00 in June 2018. This loan had an APR of 3.9%, total interest, fees and charges of £753 and this meant that the total amount of £8,253.00 was to be repaid in 60 monthly instalments of £137.55. The purpose of the loan at the time of the application was recorded as debt consolidation.

One of our investigators reviewed what Mr W and Creation had told us. And she thought that Creation hadn’t done anything wrong or treated Mr W unfairly. So she didn’t recommend that Mr W’s complaint be upheld.

Mr W disagreed and asked for an ombudsman to look at his complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr W’s complaint.

Having carefully considered everything, I’ve decided not to uphold Mr W’s complaint. I’ll explain why in a little more detail.

Creation needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Creation needed to carry out proportionate checks to be able to understand whether Mr W could afford to repay before providing this loan.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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.

Creation says it agreed to Mr W’s application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked Mr W’s declaration of income and his expenditure against a credit search it carried out. In Creation’s view all of this information showed Mr W could comfortably make the repayments he was committing to.

On the other hand, Mr W has said he should never have been provided with this loan because of his existing financial position.

I've carefully thought about what Mr W and Creation have said.

The first thing for me to say is that Creation didn't simply accept an over-optimistic declaration of monthly disposable income at face value. Creation's credit searches showed Mr W had some existing debts. But these weren't excessive. And the intention was for Mr W to clear some of his existing commitments with the proceeds of this loan.

It's also worth pointing out that the information Mr W has provided now does appear to show that when his committed regular living expenses and existing credit commitments were deducted from his monthly income, he did have the funds, at the time at least, to sustainably make the repayments due under this agreement. Equally, Mr W would have even more left over provided he consolidated his debts in the way that he said he would.

Furthermore, given the low interest rate on this loan, Mr W would have been in a better position had he used this loan to consolidate his existing debts in the way he said he was going to. Equally, as this was Mr W's first loan with Creation, I'm satisfied that it was reasonably entitled to believe that it wouldn't be increasing Mr W's existing indebtedness in a way that was unsustainable or otherwise harmful.

It is possible that Mr W may not have cleared his existing balances with this loan, or ended up re-establishing balances on some of his credit accounts. But without wishing to be blunt that was Mr W's choice. Ultimately, Creation needed to make a reasonable decision based on the information it had available at the time.

In my view, all Creation could do was take reasonable steps to ensure the payments would be affordable for Mr W. And as Mr W didn't have a history of applying for loans with Creation for consolidation purposes and then returning for further funds after having failing to consolidate as he said he would, I think Creation was reasonably entitled to believe the funds would be used for the stated purpose.

As this is the case, I don't think that Creation did anything wrong when deciding to lend to Mr W – reasonable and proportionate checks are unlikely to have shown that Mr W would have difficulty making his payments to this loan and if he consolidated his debts like he said he would do, Mr W would actually have been left in a better financial position.

In reaching my conclusions, I've also considered whether the lending relationship between Creation and Mr W might have been unfair to Mr W under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Creation irresponsibly lent to Mr W or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

So overall I don't think that Creation treated Mr W unfairly or unreasonably when providing him with his loan. And I'm not upholding Mr W's complaint. I appreciate this will be very disappointing for Mr W. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 30 December 2024.

Jeshen Narayanan
Ombudsman