Case study: Non-Bank Money Services/Credit

COMPLAINANT'S LOANS WRITTEN OFF AS LOAN COMPANY LENT INAPPROPRIATELY

Themes: Loan agreement; affordability checks; inadequate process and procedures

A borrower was unable to make the agreed repayments on his loans after the loan company lent him more money.

Mr F took out a £45,000 loan from a loan company but, after a while, he struggled to make the repayments. In November 2018, he asked to borrow more money from the same loan company for his business. This was declined because the loan company wanted to see the previous loan run properly for at least six months before agreeing to any further lending.

In April 2019, and although Mr F was still in arrears on his existing loan, he asked the loan company for a further £35,000, again to help his business. This time, the loan company agreed and also consolidated all of Mr F's existing borrowing into one new loan. Unfortunately, Mr F fell into arrears on the new loan almost immediately. Mr F then complained to the loan company claiming they had not made enough checks or done enough 'due diligence' before lending him the extra money. In response, the loan company said it had agreed to the new loan on the basis of comprehensive income and expenditure and profit and loss statements. They also said they believed that Mr F was extremely knowledgeable in his business and that the extra money would help him earn a great deal more which would enable him to repay all of his debts.

When he complained to CIFO, Mr F said that the extra lending, combined with a string of bad luck he had experienced both personally and, in his business, had caused him to lose everything. Mr F wanted the loan company to 'write-off' all of his outstanding debt, compensate him for his lost earnings, and give him compensation for business and reputational damages along with a substantial distress and inconvenience award. Mr F estimated his total claim was worth more than £300,000.

Whilst CIFO found that Mr F's loan company had completed adequate checks before it had granted him the first loan, the same could not be said for the second loan. Although the lender was not bound by any local consumer credit law, CIFO concluded that when assessing the complaint, it was appropriate to have regard to a local voluntary code of practice for consumer lending which the loan company had signed up to in an adjoining jurisdiction. This code of practice promotes responsible lending and commits lenders to "obtain the right information to ensure that credit is not advanced where the ability to repay might be in doubt."

CIFO concluded that the loan company had not made enough checks or undertaken enough due diligence before it had agreed to Mr F's second loan. Therefore, CIFO upheld the complaint and recommended that the loan company rework Mr F's loan as if the second loan had not been granted and write-off the difference which came to approximately £46,000. Both the loan company and Mr F accepted CIFO's recommendation.