

The complaint

Mr L complains that MYJAR Limited lent to him in an irresponsible manner.

What happened

Mr L was given four loans by MYJAR between August and October 2015. Loans one and three were single repayment payday loans, and loans two and four were due to be repaid by six monthly instalments. Mr L successfully repaid loans one to three but loan four was still outstanding at the time of the complaint. A summary of his borrowing from MYJAR is as follows:

Loan	Amount	Date of loan	Date repaid
1	£100	23.8.15	5.9.15
2	£1,175	7.9.15	7.10.15
3	£100	7.10.15	8.10.15
4	£1,500	25.10.15	Outstanding

Mr L's complaint has been assessed by one of our adjudicators. He didn't think that MYJAR had been wrong to give the loans to Mr L.

Whilst MYJAR accepted the adjudicator's assessment, Mr L doesn't agree with it. He feels that MYJAR should've realised he was experiencing financial difficulties. And he's concerned that its application process isn't sufficiently thorough and that it's designed to offer loans of increasing value.

So, because the complaint hasn't been resolved informally, it's been passed to me for 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.

We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

MYJAR needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr L could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that MYJAR should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer'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 of time 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).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think it's important for me to start by saying that MYJAR was required to establish whether Mr L could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow that this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments.

So it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

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

MYJAR did some checks before it lent to Mr L. It asked him for details of his income, and his normal expenditure. Mr L told it that his income was £2,100 per month and declared his regular expenditure to be £800 per month (comprising rent and other expenditure, but with no other credit commitments).

I note that there is a discrepancy between the income figures detailed in MYJAR's final response to Mr L's complaint (where it mentions monthly income of £1,800) and its record of client information (which states declared income to be £2,100 per month). I've clarified this with MYJAR and it's now provided evidence that the former figure of £1,800 was actually submitted to it by Mr L in May 2016 (ie, after the loans were granted). It's shown that Mr L's declared income at the time each of the loans was granted was £2,100, and that it was against this sum that its affordability checks were conducted.

MYJAR also checked Mr L's credit file before each loan. I've seen a summary of the results of those credit checks and they don't show anything that I think should have caused additional concerns to the lender.

Loans one to three

I share our adjudicator's view that MYJAR wasn't wrong to give loans one to three to Mr L.

Loan one was of modest value compared to what MYJAR knew about Mr L's income and expenses. In addition, the loan was for a very short duration of two weeks and was, in fact, repaid a couple of days earlier than required.

Mr L has expressed a concern that MYJAR offered small loans initially and then, once they had been repaid, then offered much bigger loans that were unmanageable for him. I do acknowledge that loan two was for a much larger amount than the first loan. However, it was to be repaid by six monthly instalments and I don't consider that these instalments, in themselves, represented a significant proportion of Mr L's monthly income. As such, I don't believe that such an increase in value should immediately be considered as a cause for concern.

Loan two was repaid early by Mr L, after one month.

Loan three was, again, for the relatively modest amount of £100 and was borrowed for just one day.

At this stage in the lending relationship I think that the checks carried out by MYJAR were proportionate and I haven't seen anything that I think ought to have concerned it. And I wouldn't reasonably expect MYJAR to have been concerned that Mr L's repaying these loans, and then borrowing again quite soon afterwards, was necessarily an indication of any financial difficulties. So, in these circumstances, I don't intend to uphold Mr L's complaint about loans one to three.

Loan four

Mr L applied for loan four just two weeks after loan three had been repaid. This was for a higher value again and required six monthly repayments of £484.

Given all the circumstances of Mr L's loans to date, I do think it would've been proportionate by this stage for MYJAR to gain a more detailed understanding of his financial position. In addition to obtaining details of his regular income and expenditure, I'd have expected it to seek specific information about any other short term borrowings Mr L may have had. I can't see that it did this and, as such, I don't think its checks went far enough.

However, having reviewed Mr L's bank statements (and I should emphasise that I wouldn't have expected MYJAR to ask for sight of these in the circumstances of its loans) and MYJAR's file records of the results of its credit checks, I can't see that Mr L had any other credit commitments – either regular or short term – at that time. It follows that, even if MYJAR had carried out the better checks that I'd consider proportionate, I don't think it would've seen anything that would prompt it to decline his application for loan four.

Whilst recognising that the monthly repayments for loan four were higher again than those attached to his previous loans, I still don't think they represented a significant proportion of Mr L's monthly income to the point where I'd consider the loan to be unaffordable.

I don't doubt that Mr L has been experiencing financial difficulties – but, in his circumstances, I don't think it would've been proportionate for MYJAR to ask him for the amount of information that would've been needed to show that the loan was unsustainable.

Mr L complains that the pattern of lending, where initial small loans were followed by a larger loans, should've indicated to MYJAR that he was in financial difficulty and so it shouldn't have lent further to him. I have considered this aspect carefully but, in the particular circumstances of Mr L's loans, I am influenced by the facts that:

- a) the repayment amounts, even for the highest value loan, don't appear to represent a significant proportion of Mr L's declared disposable income, and;
- b) Mr L didn't have any other loans outstanding at the time, and his credit checks didn't show anything of concern.

As such, I don't think that the pattern of lending should've indicated to MYJAR that Mr L was experiencing financial difficulties.

I'm sorry to disappoint Mr L but I hope my explanations help him understand why I've reached my decision.

I take this opportunity to remind MYJAR (or any third party if the debt is sold on) that it should discuss payment options with Mr L and treat him fairly and sympathetically if he needs further time to pay what he still owes.

And if Mr L would like help to manage his finances there's more information about how to get free debt advice on our website – or we can provide contact details if he gives us a call.

My final decision

For the reasons I've given, I've decided not to uphold Mr L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 14 January 2021.

Richard France
Ombudsman