DRN-1564534

The complaint

Mr W says PDL Finance Limited – trading as Mr Lender - irresponsibly lent to him.

What happened

This complaint is about 14 short-term loans Mr Lender provided to Mr W between March 2015 and August 2019. Mr W's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	26/03/2015	07/04/2015	1	£200.00	£257.60
2	07/04/2015	30/04/2015	1	£400.00	£476.80
3	30/04/2015	29/05/2015	1	£500.00	£620.00
4	29/05/2015	20/07/2015	3	£600.00	£358.40
5	21/09/2015	29/09/2015	1	£150.00	£196.80
6	01/10/2015	29/10/2015	3	£1000.00	£565.33
Around 11 months gap					
7	14/09/2016	03/11/2016	3	£250.00	£124.66
8	03/11/2016	25/11/2016	3	£500.00	£274.66
9	13/12/2016	31/12/2016	12	£1500.00	£323.00
10	20/01/2017	27/02/2017	3	£250.00	£161.33
Around 15 months gap					
11	14/06/2018	31/10/2018	6	£500.00	£189.89
12	17/02/2019	24/05/2019	9	£500.00	£175.55
13	28/06/2019	20/08/2019	12	£1000.00	£231.83
14	22/08/2019	Outstanding	9	£500.00	£172.55

Mr W hasn't repaid loan 14 and so there is still an amount that is outstanding.

Our adjudicator partly upheld Mr W's complaint and thought loans 4 to 6, 9 to 10 and loans 12 to 14 shouldn't have been given. He concluded that if Mr Lender had carried out proportionate checks it would have seen on each occasion that Mr W was having problems managing his money. Mr Lender disagreed and the complaint was passed to me, an ombudsman, to make 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 the relevant rules, guidance and good industry practice - on our website.

Mr Lender 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 W could repay the loans in a sustainable manner. These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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 Mr Lender should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- 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 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).

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

I think that it is important for me to start by saying that Mr Lender was required to establish whether Mr W 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 this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and 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. And 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 the arguments, evidence and information provided in this context and what this all means for Mr W's complaint. Having done this, I'm partially upholding the complaint. I'll explain why.

There was a significant break in Mr W's borrowing from Mr Lender on two occasions. There was a gap of around 11 months between loans 6 and 7. There was also a gap of around 13 months between loans 10 and 11. I think it would be reasonable for Mr Lender to view both of these gaps as an indication that Mr W's finances had stabilised after whatever the circumstances were that had caused him to take out his previous loans (in the first instance loans 1-6 and then on the second occasion loans 7-10).

I did consider the length of time in general that Mr W had been borrowing from Mr Lender and whether it was reasonable to conclude from loan 11 that there was a break of lending. But I consider there was a significant amount of time that had passed at this stage (13 months) and in the circumstances of this case, its most likely that during that time Mr W's finances had most likely stabilised. So, I will look at Mr W's borrowing in three separate lending chains.

Chain one was made up of loans 1 to 6 and chain two was loans 7 to 10. Then chain 3 was made up of loans 11 to 14.

Our adjudicator didn't uphold Mr W's complaint about loans 1 to 3 in chain one, loans 7 to 8 in chain two and loan 11 in chain three. As there appears to be no dispute about these loans, I won't be making any further findings on them other than they formed part of Mr W's overall borrowing.

Chain one – loans 1 to 6

This chain of borrowing consisted of a mixture of payday and instalment loans. Mr Lender says it carried out checks before it lent loan 4 to Mr W and the results showed Mr W had enough disposable income to make the repayments. But as this was Mr W's fourth loan in two months and the amount Mr W was asking for was increasing steadily on each occasion, I think Mr Lender should have been looking to build a clearer picture about Mr W's finances before lending him this loan. I think Mr Lender at this point, should have been finding out more about Mr W's other short-term lending commitments.

Mr W has provided his bank statements for the period of time before and after he asked to borrow loan 4 from Mr Lender. I can see that at the time he asked for this loan, he had four outstanding short-term loans with other providers. This shows me that Mr W more likely than not had become reliant on short term lending and was borrowing to meet a gap in his finances. If Mr Lender had carried out further checks I think it would have seen this and as a responsible lender wouldn't have agreed to lend to Mr W loan 4 and every loan from this point forward in this loan chain.

Chain two – loans 7 to 10

This chain was made up of predominately instalment loans. Mr Lender says it carried out proportionate checks when it agreed to loan 9. But I don't agree and think at this point it should have done more. I say this because the amount Mr W had asked for had leapt up to triple the amount of his first two loans in this chain. And the amount of time he had asked to repay this loan had also increased significantly. So, I think Mr Lender should have, at this point carried out a complete review of Mr W's finances.

Had Mr Lender done so, I think it would most likely have made a different lending decision about this loan and for all of the loans took out by Mr W going forward in this chain. I say this because Mr Lender would have seen with better checks that there were clear signs that Mr W was struggling to manage his money. At the same time as applying for loan 9, Mr W had taken out short-term high cost credit from three other lenders. So, it was most likely he was just borrowing to pay off other loans. And there were frequent gambling transactions on bank statements that Mr W has provided to our service further indicating it was likely he had wider financial problems.

Chain three – loans 11 to 14

Chain 3 was made up of longer-term instalment loans with terms ranging from 6 to 12 months. Mr Lender says it carried out proportionate checks when it agreed to loan 12. But I don't agree and think at this point it should have done more. I say this because after repaying his first loan in this chain that had been agreed to be repaid over 6 months, Mr W had asked to lend over a longer period of 9 months and the amount he was asking to borrow hadn't reduced at all. I think Mr Lender should have been concerned at this point that Mr W was struggling to repay in a sustainable way. So, I think Mr Lender should have, at this point carried out a complete review of Mr W's finances.

Had Mr Lender done so, I think it would most likely have made a different lending decision about this loan and for all of the loans took out by Mr W going forward in this chain. I say this because Mr Lender would have seen with better checks that there were clear signs that Mr W was struggling to manage his money. At the same time as applying for loan 9, Mr W had taken out short-term high cost credit from six other lenders. Mr W had also repaid a number of short-term loans shortly before he had asked for this loan. So, it was most likely he was just borrowing to pay off other loans. And there were frequent gambling transactions on bank statements that Mr W has provided to our service further indicating it was likely he had wider financial problems. His bank statements clearly showed that Mr W was struggling to manage his finances.

It follows from what I have concluded above that Mr Lender shouldn't have agreed to lend loans 4-6, loans 9 to 10 and loans 12 to 14 and needs to now put things right.

Putting things right

- refund all interest and charges Mr W paid on loans 4 to 6, loans 9 to 10 and loans 12 to 14;

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;

- remove any negative information about loans 4 to 6, loans 9 to 10 and loans 12 to 14 from Mr W's credit file.

† HM Revenue & Customs requires Mr Lender to take off tax from this interest. Mr Lender must give Mr W a certificate showing how much tax it's taken off if he asks for one.

Mr W still owes Mr Lender some of the principal balance he borrowed on loan 14. Mr Lender may deduct this from the compensation that is due to him. But, to be clear, that outstanding balance should be recalculated to remove any interest and charges, whilst taking account of any repayments Mr W has made on that loan as though they were applied against the principal sum borrowed.

My final decision

For the reasons given above, I'm partially upholding Mr W's complaint. PDL Finance Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 20 August 2020.

Mark Richardson
Ombudsman