

The complaint

Miss J complains that PDL Finance Limited (trading as 'Mr Lender') acted irresponsibly when lending to her.

What happened

Between July 2018 and March 2019 Mr Lender provided Miss J with four loans.

Here's a table setting out details of those loans:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Repayment
1	20/07/2018	14/08/2018	3	£200.00	£121.06
2	28/08/2018	14/09/2018	6	£750.00	£287.00
3	14/09/2018	12/02/2019	12	£1,000.00	£263.33
4	01/03/2019	09/05/2019	6	£400.00	£154.44

Miss J feels that Mr Lender didn't do proper checks and she says that had it done so, Mr Lender would've seen that it was irresponsible to lend to her as she was already borrowing elsewhere to support a short term gambling habit at the time.

Our adjudicator partly upheld Miss J's complaint. He didn't think that Mr Lender was wrong to provide loans 1 and 2 to Miss J. But our adjudicator felt that when Miss J applied to borrow loan 3, proportionate checks would most likely have shown that she was having problems managing her money. Our adjudicator thought that Mr Lender would've found out that Miss J was using a significant amount of her income towards gambling. And he said in these circumstances, Mr Lender ought to have realised it was unlikely Miss J would've been able to sustainably repay this loan - and any subsequent loans.

So our adjudicator said Mr Lender shouldn't have provided loans 3 and 4 to Miss J and he gave directions setting out what he thought Mr Lender should do to put things right for Miss J.

Mr Lender disagreed with our adjudicator. Mr Lender mainly said that it would have been disproportionate to request bank statements that early during the borrowing relationship. Mr Lender said Miss J repaid her loans without showing signs of any financial difficulty and alongside the checks conducted, it had no reason to doubt the information that Miss J provided and believed the loan was being used for its intended purpose.

So the complaint comes 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.

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.

Mr Lender needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should've carried out proportionate checks to make sure Miss J 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 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 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.

Mr Lender was required to establish whether Miss J could sustainably repay her 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 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. 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.

Taking all this into account, I've carefully considered all of the arguments, evidence and information provided and thought about what this all means for Miss J's complaint.

As far as I can see, Miss J is happy to accept what our adjudicator said with respect to not upholding her complaint about loans 1 and 2. So I don't think I need to say more about loans 1 and 2 except to say that I agree with our adjudicator about these loans.

Mr Lender has told us about the checks it did before lending to Miss J. It asked her to provide details of her income and to tell Mr Lender what she normally spent each month. And Mr Lender also carried out checks on Miss J's credit file.

When she applied for loan 3, Miss J was asking to borrow a large loan that she expected to be paying back over a relatively long period as she signed up to pay 12 monthly instalments over the course of a year or so.

Mr Lender could see that the amounts Miss J was borrowing were getting bigger each time – loan 3 was for five times the amount of loan 1, taken out less than 2 months earlier. She took out loan 3 the same day that she paid loan 2 – and by arranging the loan over such a long period she effectively kept down the cost of the monthly repayments she would have to make.

Taking all this into account, I think Mr Lender should have taken steps to verify what Miss J was saying about her financial circumstances as the information it had gathered so far appeared at odds with her borrowing request. Mr Lender hasn't shown me it did this. So I can't fairly say that it carried out a proportionate check before agreeing to lend to her.

Miss J has provided her bank statements so I've looked through these to see what Mr Lender was likely to have found out. To be clear, I'm not suggesting Mr Lender should have done this. But, in the absence of other evidence, I think these give a reasonable picture of Miss J's finances at the time. And had Mr Lender looked in depth at Miss J's finances it would likely have seen that she was facing serious problems managing her money. I think it would have learnt that Miss J already had a record of borrowing from other short term lenders, she was typically substantially overdrawn at the bank and had been for some time – and she was spending significantly on gambling.

This means I don't think it was reasonable for Mr Lender to think that it was likely Miss J would be able sustainably to repay loan 3 – or any further lending. So it shouldn't have provided this loan or loan 4.

Putting things right

A) add together the total of the repayments made by Miss J towards interest, fees and charges on loans 3 and 4, including payments made to a third party where applicable, but not including anything already refunded.

B) calculate 8% simple interest* on the individual payments made by Miss J which were considered as part of "A", calculated from the date Miss J originally made the payments, to the date the complaint is settled.

C) pay Miss J the total of "A" plus "B".

D) remove any adverse information Mr Lender recorded on Miss J's credit file in relation to loans 3 and 4.

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

My final decision

For the reasons given above, I'm partly upholding Miss J's complaint. PDL Finance Limited (trading as 'Mr Lender') should take the steps I've set out to put things right.

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

reject my decision before 7 August 2020.

Susan Webb
Ombudsman