

The complaint

Mr S says MYJAR Limited irresponsibly lent to him. He also says that MYJAR has applied a default against him incorrectly.

What happened

This complaint is about an instalment loan MYJAR provided to Mr S in June 2018. The amount borrowed was £725 and it was due to be repaid over six instalments of £215.31. MYJAR sent Mr S a notice of default in October 2018 as it hadn't received a payment from him.

Mr S says he paid the first instalment in July 2018, but the amount deducted by MYJAR for the instalment was for less than the repayment amount – as it was for £214.72 and not £215.31. Mr S was unable to make any further payments due to financial difficulties.

Mr S's complaint was reviewed by one of our adjudicators. They didn't think Mr S's complaint about irresponsible lending should be upheld, because they thought there wasn't anything in the information MYJAR had asked Mr S to provide that should have prompted MYJAR to do more checks. So, the adjudicator couldn't say MYJAR was wrong to have given the loans to Mr S. But the adjudicator did think the information about the default was incorrect as Mr S had made the first repayment and it was MYJAR that had requested the lower amount. So, they asked MYJAR to amend the date of the default to the next missed repayment and amend the balance to show Mr S had made the first repayment.

MYJAR agreed but Mr S disagreed. He said as the default was incorrect it could no longer be applied, and the default should be removed. As the complaint couldn't be resolved informally, it has been passed to me.

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 S's complaint falls into two points – the irresponsible lending and the application of the default. I will address each point in turn.

Irresponsible lending

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 S 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 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 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've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr S's complaint. Having done this, I'm not upholding this part of Mr S's complaint. I'll explain why.

MYJAR has told this service about the checks it carried out before approving the borrowing. It has said it asked Mr S about his employment status and he confirmed he was employed and had a monthly income of £3,214. MYJAR also checked Mr S's normal monthly living costs. Mr S declared these to be £824 a month. MYJAR says it also searched Mr S's credit file and it has provided the results of its search. There weren't any recent adverse entries like defaults or county court judgements (CCJs) recorded on it at the time the loans were taken out. So, there wasn't anything in the credit report which would have made MYJAR carry out further checks.

This was Mr S's first loan with MYJAR, so he was very early on in his lending relationship with it. Even though he had to make monthly repayments, the highest repayment would have appeared affordable based on the information he declared to MYJAR. And there wasn't anything in the information Mr S provided at the time which would have given MYJAR cause for concern, so I think it was reasonable of MYJAR to have relied on what Mr S gave it.

I think these factors had an impact of what level of checks would have been appropriate for MYJAR to carry out. Given these, I think the checks MYJAR did before lending the loans went far enough and I wouldn't have expected it at this stage to undertake any more in-depth checks.

The information Mr S declared to MYJAR at the time of the loans may not have been an accurate reflection of his financial circumstances, but I think MYJAR was entitled to rely on that information. At this stage of the lending relationship, and what MYJAR knew about Mr S, I wouldn't have expected MYJAR to verify the information Mr S gave it. This therefore means, I can't say that MYJAR has done something wrong in lending Mr S this loan.

The application of the default

Looking at everything I have been given, I agree with the adjudicator that Mr S did pay the first instalment – albeit minus 69p. But that wasn't his intention, that was the amount MYJAR deducted. So, the application of the default for July 2018 was wrong. MYJAR has agreed to amend this and write off the amount that was outstanding.

I've thought carefully about everything Mr S has said about the default no longer being valid due to this error. But I don't agree. Mr S didn't make any payments towards his loan after the July payment. I appreciate that Mr S was struggling financially, but the application of a default is correct against his credit file. MYJAR has an obligation to correctly reflect what has happened on Mr S's account for credit reference purposes, so I won't be asking MYJAR to remove it.

However, I think for the sake of clarity, MYJAR should re-issue the default letter with the correct date so that Mr S's records match what is recorded on his credit file.

I appreciate that my findings are likely to disappoint Mr S, and I'm sorry to hear about his financial circumstances. I've thought carefully about everything he's told us; however, these points don't change my decision for the reasons explained above. But I hope my explanation will help him understand why I've reached this conclusion.

Putting things right

MYJAR should:

- If it hasn't done so already - amend the default date and adjust how much Mr S owes so it shows he made the first payment in full
- Re-issue the default notification so it reflects the correct date

My final decision

I partially uphold this complaint and MYJAR Limited should do as laid out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 September 2020.

Claire Marchant-Williams
Ombudsman