DRN-2063577

## The complaint

Ms M complains that PDL Finance Limited (trading as Mr Lender) irresponsibly lent to her.

## What happened

Ms M was given six short-term loans by Mr Lender between February 2012 and March 2014. A summary of her borrowing is as follows:

| Loan | Date Taken | Date Repaid | Instalments | Amount | Repayment | Deferrals |
|---|---|---|---|---|---|---|
| 1 | 23/02/2012 | 20/04/2012 | 1 | £300.00 | £397.00 | 2 |
| 2 | 21/04/2012 | 27/04/2012 | 1 | £400.00 | £527.00 | |
| Break in lending | | | | | | |
| 3 | 24/11/2013 | 21/01/2014 | 2 | £550.00 | £715.00 | |
| 4 | 21/01/2014 | 21/02/2014 | 1 | £600.00 | £780.00 | |
| 5 | 21/02/2014 | 21/03/2014 | 1 | £600.00 | £780.00 | |
| 6 | 21/03/2014 | 12/11/2019 | 1 | £600.00 | £780.00 | 2 |

Our adjudicator didn't think Mr Lender should have agreed to lend loans 2 to 6 to Ms M as proportionate checks would have shown she had borrowing with other short-term lenders as well as the cost of the repayments being a significant portion of Ms M's income.

Mr Lender disagreed and said the pattern indicated Ms M was borrowing as and when she needed funds. It also explained it carried out checks on Ms M each time she applied for a loan. These checks included affordability checks and reviewing information from credit reports. But it did offer to uphold loans 5 and 6. The offer was put to Ms M, but she declined it.

As the complaint couldn't be resolved informally, it has passed to me for a final 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 that Ms M 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 a 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 that it is important for me to start by saying that Mr Lender was required to establish whether Ms M 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 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.

There was a break in Ms M's borrowing from Mr Lender. There was a gap of 19 months between loan 2 and loan 3. I think it would be reasonable for Mr Lender to view this gap as an indication that Ms M's finances had stabilised after whatever the circumstances were that had caused her to take out the loans in the first instance. So, I will look at Ms M's borrowing in two separate lending chains.

Our adjudicator didn't think Mr Lender needed to do more before it lent Ms M loan 1. Ms M hasn't disagreed, so I won't be making any further findings on this loan because it no longer appears to be in dispute. But I've kept the loan in mind when thinking about the overall borrowing relationship between Ms M and Mr Lender.

Having carefully considered all the arguments, evidence and information provided in this context and what this all means for Ms M's complaint, I'm partly upholding the complaint. I'll explain why.

*Chain one*

Mr Lender said it carried out checks before it lent loan 2 to Ms M. But, as Ms M had deferred repaying her first loan twice and given the amount Ms M was borrowing plus interest, that would be repayable the next month, Mr Lender ought to have been looking to build a clearer picture about Ms M's finances than it did before lending her this loan. Such as asking to see her bank statements and a copy of her payslip/bills.

Had Mr Lender done proportionate checks for this loan, it's likely to have found Ms M was borrowing from a lot of other short-term lenders and the repayments for these loans were increasing her monthly outgoings significantly.

Mr Lender would have also likely seen that Ms M was also using on-line gambling sites regularly and the total of amounts of bets she was placing often exceeded her income. Such financial behaviour ought to have caused Mr Lender to question whether the loan repayments were sustainable for Ms M and whether it should have continued to lend to her.

So, I'm upholding the complaint about loan 2.

*Chain two*

Mr Lender says it carried out adequate checks on Ms M when she applied for loan 3. This included verifying her employment and income. It also says it carried out credit checks which didn't reveal anything of concern. However, I think if Mr Lender had properly considered the information it had about Ms M's financial situation and the lending, I think it would have seen that Ms M was not able to take on this borrowing or any subsequent loans.

I say this because Ms M was borrowing £550, plus interest, which was due to be repaid in two instalments. The first instalment was an interest only payment of £165. This meant that Ms M would be repaying £715 for the second instalment from her monthly declared income of £1,400. The repayment represented a significant proportion of Ms M's income and I think Mr Lender ought to have realised this and the potential for Ms M to struggle to make the repayment. And the fact Ms M took out her third loan on the same day as repaying loan 2, I think proves that Ms M was unable to sustainably make the repayments and this loan or any of the following loans shouldn't have been given.

I have noted Mr Lender's comments about the fact Ms M was able to repay all her loans. Whilst Ms M might not have fallen into arrears with her loans from Mr Lender, it doesn't necessarily follow that repaying the loans wasn't proving problematic.

So, I'm also upholding Ms M's complaint about loans 3 to 6.

**Putting things right**

- refund all interest and charges Ms M paid on loans 2 to 6;
- 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 2 to 6 from Ms M's credit file.

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

**My final decision**

I’m partially upholding Ms M’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 Ms M to accept or reject my decision before 11 September 2020.

Claire Marchant-Williams
**Ombudsman**