

## The complaint

Mr C complains that two loans given to him by Everyday Lending Limited trading as GeorgeBanco.com were unaffordable for him. He's represented by a friend, but for ease, I'll refer to Mr C throughout.

## What happened

Mr C took the following guarantor loans from GeorgeBanco:

	Date	Amount	Term	Monthly Repayment	Purpose as shown on application form
Loan 1	2 March 2017	£5,000	5 years	£187.93	Used car
Loan 2	6 December 2017	£6,500	5 years	£244.43	Used car

Mr C says the loans were unaffordable for him. He says if GeorgeBanco had carried out enough checks, it would have seen he had other loans and should have refused to lend to him. He says the GeorgeBanco loans left him with little money each month and he had to borrow from family to get by.

GeorgeBanco says it carried out reasonable and proportionate checks in line with its usual process based on the information Mr C provided, and it had no concerns about his ability to afford the loans. Mr C disagreed and referred his complaint to us.

One of our investigators looked into the complaint. He said that given the amounts, duration and monthly repayments, he thought GeorgeBanco should have carried out more thorough checks. He felt if it had done so, it would have refused to lend to Mr C. Our investigator asked GeorgeBanco to put matters right.

Mr C accepted our investigators' opinion, but GeorgeBanco didn't. It said it didn't think it had been wrong to lend to Mr C because (in summary):

- he had made all repayments to Loan 1 until it was repaid from Loan 2.
- loan 2 had been taken to repay other debts including Loan 1 and for Christmas expenses – not for a used car.
- he has successfully repaid the loans.

As there was no agreement, Mr C's complaint has been 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 approach to complaints about high cost credit on our website – including the key relevant rules, guidance good industry practice and law. I've considered this approach when deciding this complaint.

GeorgeBanco needed to take reasonable steps to ensure that it didn't lend to Mr C irresponsibly by carrying out reasonable and proportionate checks. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- Did GeorgeBanco carry out reasonable and proportionate checks to satisfy itself that Mr C was in a position to sustainably repay the loan?
- If not, what would reasonable and proportionate checks have shown at the time and did GeorgeBanco make a fair lending decision?
- Did GeorgeBanco act unfairly or unreasonably towards Mr C in some other way?

GeorgeBanco was required to carry out a borrower focussed assessment. This assessment is sometimes referred to as an 'affordability check' or 'affordability assessment'. The purpose of the assessment is for GeorgeBanco to think about whether repaying the loan would cause difficulties for Mr C. In other words, it wasn't about GeorgeBanco assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on Mr C. The fact that the loans were guaranteed by a third party and the potential of GeorgeBanco to pursue the guarantor instead of Mr C doesn't alter the obligation.

GeorgeBanco had to carry out reasonable and proportionate checks to satisfy itself that Mr C would be able to repay the loan sustainably. There's no set list of checks it had to do, but it could take into account several different things such as the amount and length of the loan, the amount of the monthly repayments and the overall circumstances of the borrower.

Taking all that into account, I think a reasonable and proportionate check ought generally to have been more thorough where:

- a customer as a low income (because it may make it more difficult to make loan payments of a set amount from a low level of income);
- the higher the amount due to be repaid (because it may be more difficult to meet a higher repayment for a particular level of income);
- the longer the term of the loan (because the total cost of the credit is likely to be higher, and the customer is obliged to make payments for a longer period); and
- the greater the number and frequency of loans and the longer the period of time during which a customer has been given loans (because of the risk of repeated refinancing may sign the borrowing has become or was becoming unsustainable).

#### Did GeorgeBanco carry out reasonable and proportionate checks?

When it received Mr C's applications, GeorgeBanco asked for details of his income, what he wanted the money for and obtained his consent to review his credit file. Mr C told them he earned £1,350 per month, lived with his parents and had three dependants. GeorgeBanco says after assessing his credit file, it confirmed his financial commitments applied a percentage of his income for general living expenses.

For Loan 1, it says this process led it to allow £236 for credit commitments, £100 for rent, £715 for living costs and £188 for this loan. This left Mr C with a monthly disposable income of £111 and on this basis, GeorgeBanco felt the loan was affordable.

In March 2017 at the time of the application for Loan 1, Mr C's credit file at the time showed he had two loans outstanding totalling approximately £4,100 – both of which had been taken in the last three months. At least one of these loans appears to have been taken to repay another which had been open for less than a year.

The amount allowed for living expenses in Mr C's budget - £715 – isn't broken down so it's not clear what items of expenditure GeorgeBanco has allowed for in it. From what GeorgeBanco has said, it simply represents a percentage of his income which doesn't appear to necessarily reflect Mr C's actual expenditure. Given that Mr C had three dependants, it's likely he had very little – if any – flexibility in that.

Mr C had applied for Loan 1 to buy a car, which will have necessitated further costs, such as insurance, servicing and fuel which may or may not be included in the figures GeorgeBanco has provided.

By GeorgeBanco's calculations, Mr C was left with £111 monthly disposable income once this loan was agreed. This doesn't leave a great deal of flexibility for a family of four should anything unexpected happen. His credit commitments rose from £236 per month to £424 – over 31% of his net monthly income.

Mr C's credit file showed he'd only recently taken two loans and consolidated one – and was seeking to borrow further funds. I think, taking into account what it knew already, GeorgeBanco should have asked further questions of Mr C to ensure Loan 1 would be sustainable for him. It follows that I don't think its checks were reasonable and proportionate for Loan 1.

Around nine months after taking Loan 1, Mr C returned to GeorgeBanco to consolidate the loan and borrow a further £1,500. The new loan would increase his payments to GeorgeBanco from £118 per month to £244. His credit file showed that in that time, he'd taken three further loans from other providers - one for £200 which had been settled, and two totalling over £4,750.

I acknowledge GeorgeBanco's comment that Mr C had made all the repayments to Loan 1 on time, but I think it should have noticed the further loans that had been taken and may well have facilitated making these payments. Ignoring Loan 1, Mr C had borrowed further funds as well as repaying existing debt. This suggests to me that Mr C was relying on rolling over credit to cover his day to day expenses and ought to have prompted GeorgeBanco to again, take a closer look at Mr C's financial situation to ensure Loan 2 would be sustainable for him. It follows that I don't think its checks were reasonable and proportionate for Loan 2.

What would reasonable and proportionate checks have shown at the time and did GeorgeBanco make a fair lending decision?

I've outlined above some of the circumstances which I think ought to have led GeorgeBanco to carry out further checks on Mr C's finances. I think it would have been reasonable for GeorgeBanco to get a detailed understanding of Mr C's circumstances, for example by asking to see several months of his bank statements in light of what appears to be a fairly tight budget and a reliance on credit.

Mr C has provided us with copies of his bank statements for a few months before each loan was taken. A careful review of the statements brings in to question some of the information provided to GeorgeBanco.

In December 2016 and February 2017 – just before Loan 1 was agreed in March 2017 – Mr C received significantly less than the £1,350 quoted as his monthly income. He received £1,075 and £1,171 respectively. This leads me to think that his income wasn't steady and therefore the figure of £1,350 couldn't be relied upon. GeorgeBanco's calculation of Mr C's disposable income of £111 relied upon him receiving £1,350 a month. He actually received between £180 and £300 per month less in two of the three months prior to the loan being agreed. I don't think I can reasonably conclude the loan was sustainable for him.

GeorgeBanco has said he kept up the repayments to Loan 1 until he repaid it with Loan 2 in December 2017. But as I've already said, in that period he'd taken a further three loans (albeit repaying a small one). I don't think the fact that he stayed up to date with payments to GeorgeBanco can be taken as evidence of the loan being sustainable for him.

The application for Loan 2 records again that he wanted to borrow for a car. GeorgeBanco has said that isn't accurate and it was for debt consolidation and Christmas expenses. The loan was a significant increase in his repayments – around £60 per month, and his income was quoted at the same level. We've seen that Mr C had continued to take loans to roll over other credit without making any significant reduction in his overall indebtedness. I think if GeorgeBanco had looked more closely at Mr C's financial circumstances, it ought to have concluded it was unlikely that lending further funds would be sustainable for him.

For the reasons I've set out, I don't think GeorgeBanco made a fair lending decision when it agreed to lend to him in either occasion.

#### Did GeorgeBanco act unfairly or unreasonably towards Mr C in some other way?

I've carefully read, listened to and thought about all the evidence provided by each party to this complaint. Having done so, I don't think GeorgeBanco has acted unfairly or unreasonably towards Mr C in some other way.

But I do think GeorgeBanco should have refused to lend to Mr C, so I am upholding his complaint about the loan.

#### **Putting things right**

When I find that a business has done something wrong, I'd normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn't happened, as far as is reasonably practical.

In this case, that would mean putting Mr C in the position he would be in now if he hadn't been given the loans. But Mr C was given the loans, used the money. So, I think GeorgeBanco should:

- Calculate the total amount Mr C received from GeorgeBanco and deduct from that figure the repayments he's made to each loan.
  - If this results in Mr C having repaid more than he received, any overpayments should be refunded to him. Interest at a rate of 8% simple per year should be added to any overpayments from the date they were made until the date of settlement\*.
  - If the calculation means there's still a balance for Mr C to pay, GeorgeBanco should let Mr C know how much is outstanding and reach a suitable, affordable payment plan with him. I remind GeorgeBanco of its obligation to treat customers fairly.
  
- Remove any negative information recorded on Mr B's credit file regarding each loan.

\*If GeorgeBanco considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr C how much it's taken off. It should also give Mr C a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

**My final decision**

My final decision is that I uphold this complaint. Everyday Lending Limited trading as GeorgeBanco.com should put things right as I've described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 8 November 2021.

Richard Hale  
**Ombudsman**