DRN-2641471

The complaint

Mr H complains that Progressive Money Limited (PML) acted irresponsibly when approving a loan for him.

What happened

Mr H says he was approved a loan by PML in December 2015 although at that time he was already in financial difficulties and had various debts elsewhere. Mr H feels PML acted irresponsibly at the time and shouldn't have lent him the money as it was clear from his bank statements, he was struggling to make ends meet. Mr H says he's now suffering from stress because of the level of debt he finds himself in and wants PML to refund all interest charged on the loan account.

PML says they undertook comprehensive measures to ensure affordability of the loan request and it passed their credit assessment criteria and deemed the loan affordable.

Mr H wasn't happy with PML's response and referred the matter to this service.

The investigator looked at all the available information but didn't uphold Mr H's complaint. He felt PML had carried out sufficient checks based on the information they were provided with.

Mr H wasn't happy with the investigator's view and asked for the matter to be referred to an ombudsman for a final decision.

I sent both sides a provisional decision, where I said :

I've considered all of the evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I have come to a different outcome to that of the investigator and I will explain how I have come to my decision.

Mr H says PML provided him with a loan in 2015 although it was unaffordable. When looking at this case I have considered if PML had taken reasonable and proportionate checks to ensure the loan was sustainable and affordable.

What happened here is Mr H applied for a loan to consolidate some of his debts with other lenders, which in itself is a justifiable reason to lend. While Mr H says he had taken out other short-term loans at the time, that is not a reason for PML not to lend to him albeit it should form part of their considerations when assessing the loan application. What is important here is whether, on receipt of the information provided by Mr H to assess the affordability, that information was acted upon. I do accept that PML obtained a comprehensive package of information to assess the loan application which included, payslips, bank statements and credit reference searches - this is what I would expect to see for a loan of this level and term.

Amongst the information PML used to assess the loan was Mr H's bank account statements and in those statements for the 3 months leading up to loan being approved it shows that for the months of September and November 2015 his mortgage payments were missed. This is *important because under the Homeowner Unsecured - Plan Matrix, provided to this service by PML it states :*

"Mortgage arrears are not accepted across all plans. Missed mortgage payments can be considered but they must be fully documented as to why the payment was missed. Senior Manager approval is required on all cases that have missed mortgage payments."

PML says the credit searches obtained show there were no mortgage arrears up until October 2015. PML also says Mr H had explained to them that he had been using his own funds to pay business expenses and deposited a cheque in November 2015 to cover the cost he had incurred on his personal credit card.

While I understand what PML are saying here, missed mortgage payments are of a concern to their business otherwise it wouldn't be documented as a specific condition that needs senior management involvement. What happened here is Mr H missed September's payment which he made up a few weeks later, after he had two pay day loans credited to his bank account the same day in excess of £700. In October his mortgage was paid but again following a short-term loan the same day of £1,000. November's payment was also missed and the credit search available to PML at that time didn't show if the November payment was made. By their own admission the bank statements they had didn't go far enough to confirm if the November mortgage payment had been subsequently made up. From this I can't see how the senior manager would have been satisfied there were no missed mortgage payments as their terms state, and if these bank statements had been interrogated and documented, given the history of previous missed mortgage payments and short-term loans, why it was felt this met their criteria.

I say this because this was a refinancing loan of £15,000, so not an insignificant amount and repayable over eight years. It's also worth mentioning the credit search annotated by PML shows there were two hard core debts totalling around £4,700, one overdraft and the other a credit card, where Mr H was simply covering the interest. Given the purpose of the new loan was to consolidate debts and these two debts were not part of it, I can't see this was ever questioned with Mr H.

When looking at this case it is important to establish whether the loan provided by PML can be seen as sustainable. While PML obtained the level of information necessary to inform them whether to lend or not, it didn't go far enough in analysing what they saw. In this case Mr H had a record of short-term pay day loans, missed mortgage payments and hard-core debt outside the borrowing being refinanced. I am satisfied a more forensic understanding of Mr H's finances should have been undertaken by PML in light of the issues evidenced on the information they received, especially given the amount, purpose and term of the loan here.

While PML will be disappointed with my decision It follows, they should now refund the interest and charges on the loan account and amend Mr H's credit file accordingly. I would also instruct PML to pay Mr H £100 by way of compensation for the trouble and upset caused.

Both Mr H and PML have responded to my provisional decision, so the case has been passed back to me to make 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.

I gave both Mr H and PML until 28 February 2021 to accept or reject my provisional decision. While Mr H has accepted my provisional decision, PML have asked me to reconsider it and raised several points to support their request.

PML have explained why they believed the loan was affordable and sustainable. PML have suggested that after allowing for some extra leeway for income and outgoings, Mr H had £121.44 of disposable income. PML also have made the point his debt to income ratio was at an acceptable level.

While I see what PML are saying here there is evidence that Mr H's income could vary from month to month, I say this because leading up to the loan agreement, the pay slips he provided for the previous two months showed his net pay at around £300 less than the amount PML identified in their affordability assessment. Taking the view that despite this variance, Mr H had £121.44 per month available as disposable income, while PML may not agree, this is based on a fairly modest allowance for day to day living expenses. It's worth mentioning this doesn't make allowance for any capital reductions in the debts he still had outstanding of around £4700 where he was only paying interest, which had been the case for around 18 months. I am satisfied that if Mr H was to try and make those repayments for the two outstanding debts over a reasonable timescale of say three years, he would be left with little or no leeway in his disposable income to meet any unexpected costs.

PML state a gross income to monthly creditors was used to assess debt to income ratio. This is of course before the new loan was granted by them and assumes interest only would continue on the two outstanding debts of £4700 with no capital repayments. I take the view that a more appropriate calculation when assessing debt to income would be total new financial outgoings to net income. Assuming we accept monthly net income of £2944, which PML have used to assess affordability, after the loan was approved it would show a ratio of net income to financial expenses of around 70%. PML says the new loan reduced his existing financial expenses by consolidating these and I accept that point, but even after doing this Mr H's monthly financial commitments exceeded £2000 per month without any allowance for settling the two debts previously referred to. PML says the residual amount available from the new loan of circa £2000 was discussed with Mr H and he suggested this would be used to part repay one of these debts. That said, from previous notes I have seen these monies were expected to be paid into his bank account where he had an overdraft of a similar sum, so I am satisfied it was expected to be used to reduce or clear the overdraft and not to reduce those two debts.

PML have questioned the point I raised about his missed mortgage payments and say they questioned Mr H on this and were happy these were up to date, apart from the November payment, which in itself, PML say isn't a reason not to lend. While I understand what PML are saying here, it doesn't alter the fact Mr H had missed mortgage payments and when they were met, at a later stage, this was with the support of short term pay day loans. It's important to say these are priority debts and accepted as such by PML in their own assessment criteria, as I detailed in my provisional decision. When considering the provision of longer-term funding, it's fair to say lenders need to be more forensic when refinancing debts especially when key commitments like Mr H's mortgage are seen to be under pressure. I am satisfied this was the situation here and while PML may not agree I can't see that this was "circumstantial" as they have stated.

As I have said in my provisional decision, I can see PML gathered reasonable levels of information to assess Mr H's loan application, my issue is when they got this information there was more forensic analysis needed given both the amount and term of the loan. Afterall, this was a loan of £15000 committed over eight years and as such was a long-term commitment for Mr H to maintain. In this case I am satisfied there was reasonable evidence and signs to show Mr H had struggled to meet his previous outstanding commitments and at best it was going to be very tight for him to meet his refinanced debts going forward for the reasons I have already explained. So, when looking at a key aspect of whether this was unaffordable lending, I am satisfied this wasn't likely to be sustainable, given Mr H's previous financial track record and ongoing commitments for the next eight years.

I would say, it's important that Mr H and PML now discuss a suitable repayment plan going forward.

While PML will be disappointed with my decision, I see no need to change or add to my provisional decision and so my final decision remains the same.

Putting things right

I instruct Progressive Money Limited to refund the interest and charges on Mr H's loan account and amend his credit file to correct this. PML should also pay Mr H £100 by way of compensation for the trouble and upset caused.

My final decision

My final decision is that I uphold this complaint. I instruct Progressive Money Limited to refund the interest and charges on Mr H's loan account and amend his credit file to correct this. PML should also pay Mr H £100 by way of compensation for the trouble and upset caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 30 March 2021.

Barry White
Ombudsman