The complaint

Ms G complained that Progressive Money Limited lent to her irresponsibly.

What happened

Ms G took out two loans with Progressive as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	02/06/2017	20/12/2017	60	£6,000.00	£274.60
2	30/05/2018	*Outstanding	24	£5,000.00	£374.53

Ms G brought her complaint to us when she wasn't able to resolve it with Progressive. In summary, Ms G complained that the loans were unaffordable and shouldn't have been lent if Progressive had properly taken into account the missed payments and defaults to other lenders shown on her credit file and the details of her spending shown on her bank statements.

Our adjudicator looked into Ms G's complaint and he thought that information Progressive gathered about Ms G's financial situation when she applied for loan 1 showed that Ms G was having problems managing her money. And although the loan was partly to be used for clearing some other debt our adjudicator said it wasn't enough to clear all the outstanding debt and Ms G still had to make significant monthly repayments towards her other loans. So our adjudicator thought it was unlikely she would be able to sustainably repay loan 1.

Our adjudicator felt that the information shown on the credit checks Progressive carried out for loan 2, and the fact that Ms G was asking to borrow again for debt consolidation purposes, showed that loan 2 would also likely be unsustainable for her.

Our adjudicator set out detailed directions indicating what Progressive needed to do to put things right.

Progressive disagreed with our adjudicator's view. In summary, it said:

- Ms G had explained the 2 defaults showing when she took out loan 1 dated back to when she had been off work ill for 4 months and had to prioritise her spending -by the time she applied for loan 1 she was back in work and repaying these debts via arrangements with creditors
- this loan was affordable as evidenced by the fact Ms G maintained the repayments until the loan was settled early
- although the loan amount was insufficient to clear all her debts, Ms G was left with 3 unsecured credit accounts, her mortgage, this loan and her mobile phone contracts
- when Ms G applied for loan 2 her total outstanding debt had reduced

- 2 defaults look like errors on her credit file as these relate to debt settled using loan 1
- although our adjudicator mentioned 6 delinquent accounts at this time, it has identified only 1 account with a delinquency date dated after June 2017
- Ms G's balance to limit ratio was 64% and following the completion of loan 2 her outstanding active creditor balances remaining on her credit file was £ 4,013. That also included creditors that Ms G stated that she wanted to settle but were not directly consolidated by Progressive Money
- there were no foreseeable future changes to Ms G's circumstances as she had stable employment and regular income, her bank statements didn't show evidence of serious financial problems such as regular unpaid transactions or escalating levels of overdraft.

Progressive asked an ombudsman to review the complaint. The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Ms G's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation.

A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out.

For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

I've kept all these things in mind and I've thought carefully about the information Progressive relied on when it decided to lend to Ms G.

Loan 1

Progressive asked Ms G about her income and expenses and carried out credit checks - and it sent this information to us. So I've been able to see information that Progressive relied on when it agreed to provide this loan to Ms G. It also saw some bank statement information.

Ms G had told Progressive her earnings could vary month to month between £1,700 - £2,500 depending on overtime. Progressive recorded Ms G's monthly income as being around £2000 per month so I think that figure was reasonable.

Ms G told Progressive that her mortgage would be coming to an end in a few months' time. And that her partner contributed towards household expenses. When looking at what she could afford, Progressive included amounts for her mortgage repayment and other main living costs (around £670), the costs of running her car (just over £230 each month) and it allowed approximately £780 for Ms G's spending on other credit.

Overall, Progressive calculated Ms G should've had around £390 still available.

So Progressive felt her loan repayment of £274.60 for this loan looked like it should be affordable for Ms G – particularly bearing in mind that she would be better off as a result of using the loan to pay off other debt.

Like our adjudicator, I don't think that Progressive properly took into account the information it was able to see on the credit checks it carried out when thinking about whether Ms G would be able to repay this loan in a way that was sustainable.

Progressive could see from its credit check that Ms G had outstanding debts totalling £27,061. I think that Progressive should've realised that this was a concerning amount of debt given Ms G's monthly income and bearing in mind the greater part of this debt (£19,880) was tied up in loans and instalment credit. This was costly borrowing that was likely to take Ms G many years to repay.

Progressive saw that although the defaults shown on her credit record were mainly historic and Ms G had said they dated back to a time when she was having relationship problems, 2 of the defaults were within the last 12 months. I've taken into account that Progressive was satisfied with Ms G's explanation about how these defaults arose. But I don't think it was reasonable to conclude that this debt wasn't potentially problematic for her. To my mind, the indications were that she was still struggling to manage her finances.

The information Progressive gathered also showed that Ms G had been in a short-term loan cycle for the last few years, she had some missed payments and some of those accounts were in arrears. Progressive could see that she was struggling to stay within the limit on her credit card account – her recent track record showed she had been over the limit for the previous 11 months.

I think all this information painted a picture of someone struggling to manage money problems effectively and it included clear warning signs that Ms G was likely experiencing financial difficulty.

I've taken into account that the purpose of the Progressive loan was partly to consolidate other credit – in other words, to pay off other debt in order to help reduce her monthly outgoings.

But after using around 2/3rds of this loan to settle other debt, Ms G was still going to have a significant amount of other credit outstanding.

It’s fair to say the repayment for this new loan was less than the combined repayments she had been making on the loans she would clear, and so her monthly outgoings would be reduced as a result. But, Ms G was signing up to pay her new Progressive loan for 60 months. The total amount that Ms G would have to pay back, if loan 1 ran for the full term, was going to be £16,476.

Looking at the loan amount and the term over which she had committed to repay it, in real terms taking out this loan put Ms G into a worse position overall.

Progressive’s loan meant Ms G had to repay expensive credit over the next 5 years – longer than it’s likely she might reasonably have expected loans she would repay using this money still to be running. And taking out this loan put her in the position of borrowing high cost credit to pay other high cost credit.

I appreciate that Ms G repaid this loan early – just 6 months or so after she took it out. But successfully repaying the loan doesn’t mean she managed to do so in a sustainable way.

Like our adjudicator, I think Progressive could see from the credit checks it carried out that Ms G’s outstanding debt and the way she was using credit suggested that she was having serious problems managing her money.

Looked at overall, I don’t think Progressive had sufficient reason to think this loan would improve her position sufficiently to achieve a significant and sustainable improvement in her overall financial situation – given her outstanding indebtedness overall.

And based on all the information Progressive had gathered, I don’t think it was in a position reasonably to say that the loan was likely to be sustainably affordable for Ms G.

I think Progressive should’ve realised that this loan – and any further lending - wasn’t likely to be sustainably affordable for Ms G – and so, based on the information it could see, Progressive shouldn’t have lent to her.

Loan 2

Progressive carried out similar checks to those it had done when Ms G took out her first loan.

Her employment situation and circumstances were broadly the same. But Progressive saw on the credit checks it carried out that Ms G had apparently substantially reduced the amount of her overall indebtedness – this had gone down to just under £13,000 with the total amount accounted for by loans and instalment credit now a little over £9,000.

Progressive was required to satisfy itself that Ms G would be able to repay the loan in a sustainable manner over the lifetime of the loan. But I can’t see how it could have been reassured about this without, amongst other things, finding out the true explanation for Ms G’s apparent reduction in borrowing.

Looking at this information, and given what Progressive knew about her circumstances, I think Progressive should’ve enquired how that reduction in overall debt had been achieved as it wasn’t possible to explain it by reference only to the information Progressive had gathered about Ms G’s financial situation.

I've carefully listened to the call recordings which have helped me to understand the application process Progressive went through with Ms G. I think it’s fair for me to say that no meaningful enquiries seem to have been made to find out about this. So I don’t think

Progressive could have reasonably satisfied itself that the reduction in reported debt necessarily reflected a real improvement in Ms G's financial situation or (without knowing where the money had come from to clear that debt) whether Ms G's indebtedness had actually been reduced.

Ms G told us that she borrowed a large loan from friend which she used to pay loan 1 and clear credit outstanding with other lenders. I don't know what Ms G had agreed in terms of repaying that loan. But had Progressive verified this information, as I think it should've done, it would've realised the potential extent to which Ms G would be paying out money was significantly more than the figure it relied on for her monthly outgoings – and her overall indebtedness hadn't improved in the way her credit file suggested.

And the apparent reduction in overall debt shown on its credit checks was at odds with other information Progressive's credit checks showed - for instance, that Ms G had taken 12 new credit accounts in the 6 months since she had paid loan 1.

Progressive's credit check indicated that she had also defaulted on 2 further accounts since taking out loan 1. I've taken into account what Progressive has said about the defaults shown. But this doesn't affect my overall view because I haven't attached any substantial weight to this information in coming to my decision.

Even allowing for the fact that part of this loan was used to clear two other substantial loans, to my mind, I don't think Progressive was in a position to say that the debt consolidation it had funded with loan 1 hadn't helped Ms G resolve her money management problems. There was a question mark over how she had reduced her apparent overall debt – and she was demonstrating continuing reliance on taking out new credit.

I don't think Progressive had any reasonable grounds to be satisfied that loan 2 wouldn't lead Ms G into further indebtedness when it had information showing her continued dependency on expensive borrowing.

Given what it knew about her financial situation and track record, I don't think that Progressive was reasonably able to conclude that Ms G was likely to be able to repay this loan in a sustainable manner.

And that's borne out by the payment problems she soon had keeping up the contractual monthly repayments on this loan. As far as I am aware, loan 2 remains outstanding.

For these reasons, I'm planning upholding Ms G 's complaint that loans 1 and 2 were irresponsibly lent.

did Progressive act unfairly or unreasonably in any other way?

It looks like Progressive had a number of conversations with Ms G about payment problems in December 2018 and January 2019. She was able to settle arrears owing on 28 February 2019.

In October 2019 Progressive told us Ms G gave an assurance that she would be able to maintain her payments. In the event, the payment at the end of that month was unsuccessful and the account fell into arrears.

I don't have any more up to date information from Progressive. I understand from what Ms G has told us that she is now in a payment plan.

Progressive confirmed that no additional interest or charges other than contractual interest has been applied to the account.

I think, broadly speaking, it appears that Progressive has worked with Ms G and shown forbearance in the light of the payment problems she has had.

I've seen nothing to make me think that it responded in a way that wasn't fair and reasonable when she approached it to discuss her payment problems.

So I don't make any additional award against Progressive over and above the redress I've set out below."

What the parties said in response to my provisional decision

Ms G agress with what I've said in my provisional decision.

Progressive hasn't sent me any further comments.

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 irresponsible/unaffordable lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having done so, and as no further comments have been received in response to my provisional decision that change what I think about this case, I still think it's fair to uphold this complaint for the reasons I explained in my provisional decision.

Putting things right

I think it is fair and reasonable for Ms G to repay the principal amount that she borrowed, because she had the benefit of that lending. But she has had to pay interest and charges on loans that shouldn't have been provided to her.

If loan 2 is still outstanding, Progressive should try to agree an affordable repayment arrangement with Ms G - bearing in mind the need to treat her positively and sympathetically in those discussions.

Progressive should buy back any outstanding debts sold if able to do so and then take the following steps. Otherwise, Progressive should liaise with the new debt owner to achieve the results outlined below and do the following:

A) add together the total of the repayments made by Ms G towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything already refunded.

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

C) remove all interest, fees and charges from the balance on any upheld outstanding loan, and treat any repayments made by Ms G as though they had been repayments of the principal loan amount.

D) If this results in Ms G having made overpayments then those overpayments should be refunded with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled and paid to Ms G, together with the amounts calculated in "A" and "B", before moving to step "F".

E) If there is still an outstanding balance, then the amounts calculated in “A” and “B” should be used to repay this. Any surplus should be paid to Ms G. However if there is still an outstanding balance then Progressive should try to agree an affordable repayment plan with Ms G. Progressive shouldn’t pursue outstanding balances made up of principal already written-off.

F) remove any adverse information recorded on Ms G’s credit file in relation to loans 1 and 2.

*HM Revenue & Customs requires Progressive to deduct tax from this interest. Progressive should give Ms G a certificate showing how much tax has been deducted if she asks for one.

My final decision

I uphold this complaint and direct Progressive Money Limited to take the steps set out above to put things right for Ms G.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms G to accept or reject my decision before 4 June 2021.

Susan Webb
Ombudsman