

## The complaint

Miss M complained that Everyday Lending Limited (trading as Everyday Loans) lent to her irresponsibly and provided her with loans that were unaffordable.

## What happened

Everyday Loans provided loans to Miss M as follows:

Loan	Date taken	Amount	Term	Monthly repayment	Total amount payable	Loan status
1	5/9/2016	£2,000	24 months	£214.63	£5151.12	Paid on 27/11/17 using loan 2
2	27/11/17	£3,000	24 months	£308.59	£7,406.16	Still outstanding

Miss M told us that her mental health was not good at the time because of spiralling debt and that this had not only affected her credit rating but also her future security and wellbeing.

One of our adjudicators looked into the complaint. He didn't think Everyday Loans should have provided Miss M with the loans and he set out the steps that needed to be taken to put things right.

Everyday Loans responded by telling us that it accepted what our adjudicator had said about upholding loan 2. But it disagreed with the adjudicator's assessment about loan 1.

In summary, Everyday Loans said that whilst Miss M had some adverse credit history the loan purpose was debt consolidation – in other words, it would be used to repay other debt and so put Miss M in a better position. Everyday Loans also said that its affordability calculation was extremely generous. And whilst the repayment of credit was around a third of Miss M's income, she lived with parents and her bank statements supported its view that her living expenses were significantly below average.

As the complaint hasn't been settled, it has been passed to me to decide.

## 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 considering unaffordable and irresponsible lending complaints on our website - including the key relevant rules, guidance, good industry practice and law. I've kept all this in mind when deciding Miss M's complaint.

There are some general principles I will keep in mind and questions I need to think about when deciding Miss M's complaint.

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.

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. And it's important to keep in mind that when working out if a loan looks likely to be affordable a lender must take a 'borrower focussed' approach and think carefully about the impact of the lending on the customer. The lending decision shouldn't just be about the business risk to the lender of not getting its money back.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss M's complaint.

For loan 1, Everyday Loans gathered information from Miss M by asking her about her income and expenses and looking at some of her recent bank statements before it agreed to lend to her. It also checked Miss M's credit file to understand her existing monthly credit commitments and credit history. Everyday Loans said that based on these checks it was satisfied that the loan was affordable for Miss M.

I've thought carefully about what Everyday Loans has said, including the comments it has made in response to our adjudicators view, but I don't think that Everyday Loans made a fair lending decision when it provided loan 1.

I say this because I don't think Everyday Loans thought carefully enough about what Miss M's credit history and the information it saw in the bank statements revealed about her overall financial situation.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application.

But I think Everyday Loans should have been concerned to see the extent of Miss M's existing borrowing and in particular her reliance on credit cards and mail order accounts as well as loans from other expensive high cost credit providers.

I think Everyday Loans could've seen that there were eleven outstanding revolving credit accounts shown on Miss M's credit file.

This included four credit cards which were all effectively up to their account limit. Two of these accounts were shown as being in debt collection – along with another loan account. Miss M's other active revolving credit was made up of seven mail order accounts. All in all,

Everyday Loans recorded information that showed the outstanding balances on Miss M's credit cards and mail order accounts added up to £6,556.

As well as this, Everyday Loans was aware that Miss M had three payday loans outstanding.

Miss M's credit history showed that managing her debt had got beyond her control – Everyday Loans saw that she had been unable to pay her existing contractual credit commitments even though she was still taking out expensive high cost credit to supplement her income.

And according to the information Everyday Loans had gathered, Miss M was already paying around a third of her take home pay just on servicing her existing debt. To me, that was a clear warning sign that she was over-reliant on credit – and the fact that she wasn't responsible for paying housing costs or bills doesn't affect my view on this point. I think Everyday Loans should have been especially concerned about why a person in Miss M's particular financial situation, especially as it thought she would have more than average spending money compared to people in similar circumstances, still needed to use so much expensive credit.

I think that Everyday Loans saw enough to realise that whatever its affordability checks appeared to show, it would be irresponsible to lend further to Miss M when it was evident that she was already failing to manage her existing debt – and this loan risked adding to her overall indebtedness and financial difficulty. I've taken into account that the loan was intended for debt consolidation. But Everyday Loans didn't have control over this – it paid the money direct to Miss M.

Everyday Loans worked out that after using its loan to clear debt that was previously costing Miss M around £252 each month, her new monthly repayments on this loan represented an overall saving on her monthly repayments.

But I think the scale of her overall debt and the extent of her evident money problems, compared to the much smaller value of the loan, would suggest that she would remain in serious financial trouble regardless.

And even after taking out this loan and using it to pay some of her other debt, it looked like Miss M would still need to spend around a third of her take home pay on her contractual credit repayments – and more than this if she was really going to be able to make any meaningful inroads into clearing her debt within a reasonable period of time by making more than the minimum monthly repayments on her cards and mail order accounts.

I think that this was such a significant proportion of Miss M's monthly income this was a further reason why Everyday Loans couldn't reasonably say it was likely that Miss M would be able to repay its loan in a sustainable way.

So, for all these reasons, I am upholding Miss M's complaint that she should not have been given loan 1.

As Everyday Loans has already agreed to uphold Miss M's complaint about loan 2 I don't need to say any more about this other than to include it in my directions for putting things right.

I agree with the redress suggested previously by our adjudicator but I've set out what Everyday Loans needs to do using simpler wording so it's easier to understand how I'm putting things right.

Miss M has been further indebted with a high amount of interest and charges on loans that she shouldn't have been provided with. I'm satisfied that she has lost out as a result of what Everyday Loans did wrong. So, I think Everyday Loans needs to take the following steps to put things right.

### **Putting things right**

I think it is fair and reasonable for Miss M to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has paid extra for lending that should not have been provided to her. In line with this Service's approach, Miss M shouldn't repay more than the capital amount she borrowed.

If Everyday Loans has sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Everyday Loans should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Miss M received as a result of having been given the loans. The repayments Miss M made should be deducted from this amount.
- If this results in Miss M having paid more than she received, then any overpayments should be refunded along with 8% simple interest\* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then Everyday Loans should attempt to arrange an affordable/suitable payment plan with Miss M keeping in mind its obligation always to treat her positively and sympathetically in those discussions.
- Remove any negative information recorded on Miss M's credit file regarding the loans.

\*HM Revenue & Customs requires Everyday Loans to deduct tax from this interest. Everyday Loans should give Miss M a certificate showing how much tax has been deducted if she asks for one.

### **My final decision**

For the reasons set out above, I uphold Miss M's complaint and direct Everyday Lending Limited (trading as Everyday Loans) to take the steps set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 1 December 2021.

Susan Webb  
**Ombudsman**