DRN-2983017

The complaint

Mr G says Progressive Money Limited (PML) lent to him irresponsibly.

What happened

Mr G took out a 36-month instalment loan from PML on 9 April 2018. It was for £4,000 and the monthly repayments were £203.04. The total repayable was £7,320.40.

Mr G says the loan was unaffordable for him and forced him to take out further loans. Better checks would have shown he was already repaying informal debts to family as well as other loans and credit cards.

Our investigator found that the loan should not have been given. He said from the checks PML carried out it should have seen that the loan would not be affordable for Mr G. He provided the detailed income and expenditure analysis to PML that supported this finding, explaining that he had also reviewed Mr G's credit card statements as Mr G had said he used credit for some of his essential living costs on the application call.

PML disagreed. It said, in summary the investigator calculated Mr G's income to be £4,720.02 and his total expenditure to be £4,536.96. It did not dispute the income figure but said the food and travel costs are double-counted; the investigator has used a number that is much higher than Mr G declared for childcare and he has used the wrong values for council tax, tv and car insurance. It added it did not review Mr G's credit card statements at the time of the application, but it is not unusual for a consumer to use credit cards for some of their daily expenses.

It asked for an ombudsman's review, so the complaint was passed to me.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when PML lent to Mr G required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So PML had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr G. In other words, it wasn't enough for PML to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr G.

Checks also had to be proportionate to the specific circumstances of each loan application.

In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether PML did what it needed to before agreeing to lend to Mr G. So to reach my conclusion I have considered the following questions:

- did PML complete reasonable and proportionate checks when assessing Mr G's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did PML make a fair lending decision?
- did PML act unfairly or unreasonably in some other way?

I can see PML asked for certain information from Mr G before it approved the loan. It asked for details of his income, credit commitments and living expenses. And it validated these by obtaining his recent bank statements. It also checked his credit file to understand his existing monthly credit commitments and credit history. From these checks combined PML concluded the loan was affordable for Mr G.

I'm satisfied these checks were proportionate initially. But I don't think that PML could make a fair lending decision without also taking into account the amount Mr G was spending on credit after he had explained that he used his credit card to cover some of his daily living costs. To carry out a fair affordability assessment I think it needed to understand how much he spent on credit each month for this type of expenditure, in addition to what it could see on his bank statements.

The investigator explained he had reviewed Mr G's credit card statements, and these showed he spent a monthly average of £626.33 on essential items (food and travel). PML said that as our assessment also included another £937.24 for food and travel there was cost duplication. But that it is into the case. I have double checked Mr G's bank statements between January and March 2018 and Mr G spent on average over £900 each month on groceries, petrol and train travel – in addition to the amount he put on credit.

PML also queried childcare costs as the investigator said £152.20 could be seen on bank statements, plus Mr G told him he spent around £250 a month via ATM withdrawals. This total of £402.20 was much higher than the £70 Mr G declared at the point of application. I find the fairest position would be to use the sum of the relevant transactions on the bank statements (largely ParentPay) which totals £169.25.

PML also queried the values the investigator had used for council tax, tv and car insurance. Looking first at council tax, the £172.50 monthly average includes a one-off payment of £58.50 on 19 March 2018 to the council, as well as three monthly payments of £153. I would agree the £58.50 should be deducted as it seems to have been a one-off cost. The tv figure of £132.37 includes the cost of the licence at £12.37 each month. This is reasonable. The £18.18 for insurance, rather than £46.31, is a different insurance and it can be seen there are two direct debits for insurance each month – on for £18.18 for life cover and one for £46.31 so I find both values ought to be included in the affordability assessment.

The other significant cost I feel ought to have been taken into account was the amount Mr G was repaying to two family members each month as this was informal debt and the average monthly cost was £291.67 (the investigator included one but not both of these debts).

Based on this analysis of Mr G's monthly expenditure (non-discretionary) his total spend was £4,484.36, as broken down below. My analysis shows Mr G spent less on food and more on petrol/transport than the investigator calculated – but I think this as I have included petrol bought from a supermarket in 'petrol/transport', not 'food'.

Jan-Mar 2018 average in £	
Mortgage	1311.25
Food	539.97
Water	60.05
Electricity/Gas	110.00
Council tax	153.00
Petrol/transport	414.50
Sky/cable TV	132.26
Gym membership	39.99
Car insurance	46.31
Mobile phone	148.10
Childcare	169.25
Food/travel spend on credit	626.33
Aviva Life	18.18
Credit commitments	398.51
Family loan 1	141.67
Pocket money	25.00
Family loan 2	150.00

This meant after taking on this loan Mr G would only have monthly disposable income of £32.64. Given his personal circumstances I don't think this was enough to cover all unplanned and seasonal expenses over a 36-months period. I think PML ought to have realised there was a risk the loan would become unaffordable for Mr G at some point during its term. It follows I think PML was wrong to lend to Mr G.

I haven't seen evidence that PML treated Mr G unfairly in some other way.

Putting things right

I think it's fair and reasonable for Mr G to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

So it should:

- Remove all interest, fees and charges from the loan and treat all the payments Mr G made as payments towards the capital.
- If reworking Mr G's loan account results in him having effectively made payments above the original capital borrowed, then PML should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking the account leaves an amount of capital still to be paid, then PML should work to agree an affordable repayment plan with Mr G.
- Remove any adverse information recorded on Mr G's credit file in relation to the loan.

*HM Revenue & Customs requires PML to deduct tax from this interest. PML should give Mr G a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr G's complaint. Progressive Money Limited must out things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 22 April 2022.

Rebecca Connelley
Ombudsman