DRN-3027217

The complaint

Mr W has complained that Logbook Money Limited ("LML" or "the lender") was irresponsible to have agreed credit for him.

What happened

LML provided Mr W with a loan of £750 in October 2019. The total amount of £2,437.50, including interest and charges, was to be repaid in 78 weekly instalments of £31.25.

This was a 'log book' loan, in other words it was granted on the basis that Mr W provided LML with a bill of sale for his car. This meant that if Mr W didn't make his loan repayments LML could potentially recoup its losses through the sale of the vehicle.

I understand Mr W hasn't fully repaid this loan. As of September 2020 he had repaid over £1,000 leaving an outstanding balance of over £1,400.

Mr W said that LML was irresponsible to have agreed credit for him because he had a large amount of existing debt at the time and had missed payments and incurred defaults. Mr W says that had LML carried out sufficient checks it would have understood this and declined to lend to him. Mr W has told us that he was suffering with a gambling addiction at the time and was struggling with his mental health.

One of our investigators looked into Mr W's complaint and recommended that it be upheld because they concluded LML had lent irresponsibly. They recommended LML refund the payments Mr W made above the original amount of £750 he borrowed along with compensatory interest. They also recommended LML remove any adverse information about the loan from Mr W's credit file.

LML didn't agree with this recommendation. It said it performed adequate checks and it found the loan to be affordable for Mr W. It says Mr W confirmed his income and expenditure and hadn't mentioned his gambling during the application process. LML asked for the complaint to come to an ombudsman to review and resolve.

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.

LML needed to check that Mr W could afford to meet his repayments without difficulty before agreeing credit for him. In other words, it needed to check he could make his repayments out of his usual income without having to borrow to meet them, while meeting his existing obligations and without the payments having a significant adverse impact on his financial situation. The assessment needed to be proportionate to the nature of the credit and Mr W's circumstances, and LML needed to have proper regard to the outcome of that assessment in respect of affordability risk.

With this in mind, my main considerations are did LML complete reasonable and proportionate checks when assessing Mr W's application to satisfy itself that he would be able to make his repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did LML make a fair lending decision?

LML provided this Service with the information it relied on in making its lending decision. This included Mr W's application form, in which he said his net monthly income was £3,500 and his monthly expenditure was £1,700. LML also provided an analysis of Mr W's bank transactions (I'll call this Bank A). This showed Mr W's income as being over £3,300 in August 2019 and over £3,100 in September. It also showed Mr W transferred large amounts to other bank accounts each month to the extent that he had returned payments (for his car insurance) and returned standing orders.

LML's customer records note that it asked Mr W about the transfers. He explained that his accounts with Bank A were shut in August 2019 and he had been given two months to pay off his debt with the bank. Mr W provided a letter from the bank about his account closure as evidence, which LML accepted. It concluded that the loan would be affordable for Mr W.

This explanation from Mr W doesn't seem unreasonable on the face of it. However, I think there were inconsistencies in the information LML had which ought to have raised concerns. Mr W hadn't declared any debt repayments in his application so it seems inconsistent that he needed to make transfers to other Bank A accounts of over £3,000 in August and £5,000 in September. Mr W was entering into an expensive credit agreement for £750, yet the information LML had seemed to show Mr W had a lot more than this to spare each month. In addition to making what appear to be internal account transfers, Mr W also made large unexplained transfers to an account with another bank (which I'll call Bank B) for example, in September Mr W transferred over £1,500 to Bank B.

Altogether, I think LML ought to have looked into Mr W's spending in more depth to fully assess the risk to him of not being able to meet his repayments over the loan term. So on this occasion I don't think its checks were proportionate and it should have taken further steps to verify Mr W's expenses before agreeing credit for him.

Mr W has provided a copy of his credit file and his statements for his account with Bank B. I'm not suggesting that this is the information LML should have reviewed, but it's the information I have available and I think it gives me a reasonable insight into Mr W's finances at the time.

I can see from Mr W's credit report that he had over £7,000 of credit across five accounts which had defaulted in the prior 15 months, including two credit cards in March 2019. His transactions with Bank B for August and September 2019 include gambling spend of more than his monthly salary. Mr W was borrowing from short term and high cost lenders, sometimes to directly fund his gambling.

I think it's likely that LML would have found out through proportionate checks that Mr W was having difficulty managing his existing debts and this, combined with his spending patterns, meant further credit was likely to add to his indebtedness and cause him financial difficulty. I don't think LML would have lent to him under these circumstances and so I find it was irresponsible to have done so. I've set out below what LML needs to do to put things right for Mr W.

Putting things right

I think it's fair that Mr W repays the capital he borrowed as he's had the use of this. However, I don't think he should be liable for any interest or charges on this amount or have his credit record adversely impacted.

In order to put things right for Mr W, LML needs to:

a) Refund to Mr W all payments he made above the original amount of £750 he borrowed;
b) Add 8% simple interest per annum to these overpayments from the date they were paid to the date of refund; and
c) Remove any adverse information about this loan from Mr W's credit file; and
d) Revoke the Bill of Sale for Mr W's car if this is still in place and return any relevant documents to him if it hasn't already done so.

*HM Revenue & Customs requires LML to deduct tax from this interest. It should give Mr W a certificate showing how much tax it has deducted, if he asks for one.

My final decision

For the reasons set out above, I'm upholding Mr W's complaint about Logbook Money Limited and it should put things right as I've outlined.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 7 December 2021.

Michelle Boundy
Ombudsman