

The complaint

Mr M complains that Everyday Lending Limited trading as GeorgeBanco.com (Everyday) didn't carry out enough checks when they agreed to a loan he was guaranteeing.

What happened

In September 2019, Mr M agreed to be the guarantor on a loan of £15,000 for Mr B, a friend. Everyday provided Mr B with the loan. It was secured by way of a Guarantee and Indemnity agreement and was to be repaid in 48 monthly instalments of £555.91. Mr M said he only agreed to be the guarantor as Mr B gave him assurance that he would maintain the repayments. Mr M said in early 2020 he was asked by Everyday to step in to cover the repayments for the loan. He complained to Everyday as he didn't think they'd done enough to check the affordability of the loan for Mr B.

Everyday said they'd carried out checks on Mr B's credit, employment, affordability and identity. They said their affordability assessment had shown Mr B had disposable income after making an allowance for the loan's monthly repayment. And they hadn't seen anything to raise any concerns about Mr B not being able to sustain his repayments.

Mr M wasn't happy with Everyday's response and he referred his complaint to us.

Our investigator said that Mr M was aware of his responsibilities as a guarantor. But she didn't think Everyday had done enough to verify Mr B's financial circumstances given the amount of the loan and the monthly repayment. She said Mr M should be removed from being the guarantor for the loan. All payments he'd made should be refunded plus 8% simple interest. And any adverse information about the loan should be removed from his credit file.

Everyday didn't agree. They said that the loan would have improved Mr B's financial situation. And that the checks they'd made showed he was effectively managing his credit. They asked for an ombudsman 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.

Having done so I'm upholding this complaint. I'll explain why.

Mr M's complaint is that Everyday didn't do sufficient checks on the borrower – Mr B before he was approved for the loan. Mr M says Mr B lied to him about his circumstances.

Everyday has a responsibility to complete reasonable and proportionate checks on the borrower before approving any guarantor or loan. This meant that Everyday needed to carry out proportionate checks to be able to understand whether the borrower and Mr M could afford to make all the loan payments.

I've considered the following questions:

- Did Everyday obtain Mr M's properly informed consent to become guarantor for the loan?
- Did Everyday carry out reasonable and proportionate checks to satisfy itself that Mr M was in a position to sustainably repay the loan, in the event that the borrower did not? If not, what would reasonable and proportionate checks have shown at the time? And
- did Everyday make a fair lending decision (as Mr M would be equally liable for this loan with the borrower).

Mr M signed a Guarantee and Indemnity agreement in respect of the loan. That meant that, should the borrower be unable or unwilling to make the required repayments, Everyday could seek repayment from Mr M. And Mr M isn't disputing that he knew what his role was as a guarantor, and that he could be asked to step in to cover the loan. Mr M's dispute is that Everyday didn't make a fair lending decision as Mr B had other loans that Mr M said he later found out about. And he said if Everyday had properly checked Mr B's financial situation they wouldn't have lent to him. Which would have meant Mr M wouldn't have been a guarantor for the loan. So, it's the final question that I've considered.

I've considered the relevant rules, guidance and good industry practice when someone complains about irresponsible and/or unaffordable lending. There's no set list for what reasonable and proportionate checks are. But I'd expect lenders to consider the specific circumstances of the loan application. What constitutes a proportionate affordability check will generally depend on several factors such as financial history, current situation and whether there are any indications of vulnerability or financial difficulty. Consideration should also be given to the amount, type and cost of credit they are borrowing/guaranteeing.

But there are factors which could influence how detailed a proportionate check should be for a given loan application. For example:

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

From their checks Everyday said they were aware from Mr B's credit file that he'd had a defaulted account and another guarantor loan, where there had been a couple of missed payments. Although Everyday said Mr B gave a valid reason for this. And that the loan was to be used to settle nearly all the outstanding credit. But I don't think Everyday thought carefully enough about what this credit history showed about Mr B's overall financial situation.

Everyday said the loan was for consolidation and that Mr B had disposable income of £450 which makes me question the need for another loan when he was able to meet his existing commitments. Everyday's affordability assessment showed Mr B was self-employed, and a monthly figure for his income but I haven't seen any verification of this income. The repayment of the new loan was £555.91 a month, which equated to around a third of Mr B's declared income. The loan was also over a period of four years, and from Mr B's application it appeared he'd recently moved back to living with parents, a situation I'd expect would change over the four-year period of the loan.

I don't agree with Everyday that the credit history showed Mr B was managing his finances I think it showed his reliance on this sort of expensive credit. And the level of indebtedness would increase for Mr B on taking out the new loan. I don't think the fact alone that this expensive loan was taken out to repay other expensive credit means it was fairly provided.

Taking the factors outlined above I think given the amount of the loan, the amount of the monthly repayment in ratio to Mr B's income, I think Everyday should have done further checks to verify Mr B's true financial situation..

So taking this all into account, I'm satisfied that proportionate checks weren't completed ; and any further checks would I think have likely shown the loan was unaffordable. And this is supported by how quickly Mr M was asked to step in to cover the loan repayments. I don't think Everyday could reasonably have been satisfied that providing this loan to Mr B wouldn't put him in a worse position by increasing his overall debts and tying him into a high cost credit deal that he'd signed up to pay for the next four years, increasing the overall level of indebtedness of the borrower in a way which was unsustainable, and as such shouldn't have been approved.

It follows therefore that Mr M shouldn't have been accepted as a guarantor for this loan; as it shouldn't have been approved in the first instance.

Putting things right

To put things right I ask Everyday Lending Limited trading as GeorgeBanco.com to:

- release Mr M from any obligations he has under the Guaranty and indemnity agreement, and then terminate it;
- refund any repayments Mr M has made towards the loan, with 8% simple interest from the date of payment to the date of settlement; †
- remove any information recorded on Mr M's credit file as a result of the loan.

†HM Revenue & Customs requires Everyday Lending Limited trading as GeorgeBanco.com to take off tax from this interest. Everyday Lending Limited trading as GeorgeBanco.com must give Mr M a certificate showing how much tax they've taken off if he asks for one.

My final decision

I uphold this complaint. And ask Everyday Lending Limited trading as GeorgeBanco .com to take the actions as outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 1 April 2022.

Anne Scarr
Ombudsman