

The complaint

Ms W has complained that Everyday Lending Limited (trading as “Everyday Loans”) lent to her irresponsibly.

What happened

Ms W was given two loans by Everyday Loans. The details are given below:

Loan	Date taken	Instalments	Amount	Repayments
1	March 2017	36	£3000	£177.68
2	July 2019	24	£3000	£244.40

One of our investigators looked into the complaint. They thought Everyday Loans had been wrong to provide Ms W with the loans. They concluded that Everyday Loans didn’t make a fair lending decision based on what it had in front of it for loans 1 and 2.

Everyday Loans didn’t agree with the investigator’s assessment for loan 1. It said even with a lower income figure, it would still have given Ms W the loan as she would have had enough disposable income. It also doesn’t agree with the investigator’s calculation of Ms W’s living expenses from the bank statements it had in front of it. It says it agrees with the investigator’s findings on loan 2.

As Everyday Loans disagrees about the investigator’s findings for loan 2 and the complaint hasn’t been settled, it has been passed to me to resolve the matter.

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. And I’ve considered this approach when deciding Ms W’s complaint.

I think there are some overarching questions I need to consider in order to decide what’s fair and reasonable in the circumstances of this particular complaint:

- Did Everyday Loans complete reasonable and proportionate checks to satisfy itself that Ms W would be able to repay her loans in a sustainable way? If not, what would reasonable and proportionate checks have shown at the time?
- Ultimately, did Everyday Loans make a fair lending decision?

As the lender, Everyday Loans should have taken steps to ensure that it didn’t lend to Ms W irresponsibly.

The lender was required to carry out a borrower focussed assessment or “affordability check”. The checks had to be “borrower” focussed – so Everyday Loans had to think about

whether repaying the loan sustainably would cause difficulties or adverse consequences for Ms W.

Everyday Loans had to carry out reasonable and proportionate checks to satisfy itself that Ms W would be able repay her loans sustainably. There was no set list of checks that Everyday Loans had to do, but it could consider a number of different things such as the loan amount, the length of the loan term, the repayment amounts, and the borrowers' overall joint financial circumstances.

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 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 repayment from a particular level of income);
the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for any particular 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 Everyday Loans did what it needed to before agreeing to lend to Ms W.

Loan 1

Everyday Loans on the occasion it lent to Ms W, asked for information about her income and expenditure. It also says it carried out a credit check and used bank statements along with a payslip to verify what Ms W was saying. It also used an average figure of 35% of Ms W's declared monthly income to work out what it thought her living expenses would come to.

I agree with our Investigator that Everyday Loans' checks were reasonable and proportionate in the particular circumstances of this loan application. But, like the investigator, I don't think Everyday Loans made a fair lending decision when it lent to Ms W based on the information it had gathered. I say this because I don't think Everyday Loans thought carefully enough about what all the information it had gathered showed about Ms W's overall financial situation.

Everyday Loans recorded a figure of around £1655 for Ms W's monthly earnings, it then says it verified this through checking bank statements and a payslip. It then applied an amount in respect of her normal monthly living costs using its 35% of income average. It gathered information that showed her existing credit commitments cost her approximately £618 a month. It assessed Ms W to have disposable income of around £280 after it factored in the monthly loan repayment.

I agree with the investigator's findings about Ms W's income at this time. I can see that Everyday Loans used a figure of £1655 but on her bank statements she received a lower figure of around £1438. I think on seeing this, Everyday Loans ought to have looked further into her essential expenditure showing on the statements also. This is so it could assure itself that she could make the repayments on the loan in a sustainable way. I also agree with the investigator's findings about Ms W's expenditure that is shown on the statements. I think if Everyday Loans had looked into this further, rather than rely on an average figure of 35% of Ms W's declared income, it would have seen that she wouldn't have had enough disposable income to afford the monthly repayment for this loan.

I conclude Everyday Loans ought to have realised it was unlikely that Ms W would be able to sustainably repay this amount over the term of the loan. And, in these circumstances, Everyday Loans should reasonably have concluded that it was not fair to lend to Ms W.

Loan 2

Ms W went back to Everyday Loans and asked for a second loan of £3000. Everyday Loans says it agrees with our investigator's findings. Our investigator upheld Ms W's complaint about Loan 2. They concluded Everyday Loans didn't make a fair lending decision.

I agree with the investigator's findings as well. Ms W's unsecured lending had increased significantly since she was given Loan 1. Everyday Loans had also assessed that she had minimal disposable income after it had taken into consideration the repayment for loan 2.

There is a payment relating to a loan on the bank statement, and it does look more likely than not, that Ms W was acting as a guarantor on another loan. So, this means Ms W would most likely have had a credit commitment that was more than what Everyday Loans assessed she had in disposable income. I think on seeing this, and with what I have already found, on balance, this loan was not affordable for Ms W and I don't think she would've been able to repay the loan in a sustainable way.

So, in conclusion, I don't think Everyday loans made a fair lending decision when it agreed to loan 1 and 2. I uphold Ms W's complaint and I direct Everyday Loans to put things right.

Putting things right

I think it is fair and reasonable for Ms W to repay the principal amount that she borrowed, because she has had the benefit of that lending. But as I have concluded Everyday Loans shouldn't have provided the loans, so it should look to remove the interest and fees from the principal amount.

Everyday Loans should:

- Remove all interest, fees and charges on loans 1-2 and treat all the payments Ms W has made as payments towards the capital for each of these loans.
- If reworking Ms W's loan accounts results in her having effectively made payments above the original capital borrowed, then Everyday Loans should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled*.
- Remove any adverse information recorded on Ms W's credit file in relation to loans 1-2.

*HM Revenue & Customs requires Everyday Loans to deduct tax from this interest. Everyday Loans should give Ms W a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I uphold Ms W's complaint and direct Everyday Lending Limited to put things right as I have described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 18 August 2022.

Mark Richardson
Ombudsman