DRN-3194335

The complaint

Mrs D says Everyday Lending Limited (ELL), trading as Everyday Loans, lent to her irresponsibly.

What happened

Mrs D took out a 24-month instalment loan for £3,000 from ELL on 5 March 2019. The monthly repayment was £212.97 and the total repayable was £5,111.28. I understand there is an outstanding balance.

Miss D says ELL didn't carry out proper affordability checks or consider her overall indebtedness. And this loan worsened her already poor financial situation.

Our investigator concluded ELL should not have given Mrs D the loan as it had information to suggest it was unlikely it would be sustainably affordable for Mrs D.

ELL disagreed so the complaint was passed to me to make a decision. I reached the same conclusion as the investigator, but my findings varied so I issued a provisional decision (an extract follows and forms part of this final decision). I asked both parties to submit any comments or new evidence by 2 December 2021.

Extract from my provisional decision

I can see ELL asked for some information from Mrs D to understand her disposable income before it approved the loan. It asked for her monthly income and used national averages to calculate her living costs. It checked Mrs D's credit file to understand her existing monthly credit commitments and credit history. It used copies of Mrs D's recent bank statements to verify her declared income and some of her monthly costs. It asked about the purpose of the loan which was debt consolidation and a holiday. From these checks combined ELL concluded that Mrs D had sufficient disposable income to afford the loan.

I think the checks were proportionate in the circumstances of this case, but I am not persuaded ELL reacted appropriately to the information it gathered to make its lending decision. I'll explain why.

From the credit checks it carried out ELL knew Mrs D had monthly credit commitments of £1238.23. This was a very significant percentage of her £2051.45 income. As the purpose of the loan was, in part, to repay some of her debts this would reduce. But it seems Mrs D would still need to spend at least 45% of her income every month to meet her contractual credit commitments. This assumes she was clearing her mail order debts, in addition to her existing ELL loan, her overdraft and monies owing to a debt recovery company. I note the final response letter includes the mail order debts in the list of accounts Mrs D was settling, but the Go Live Audit document doesn't. However this inconsistency doesn't impact my finding as the monthly mail order repayments were a relatively small percentage of Mrs D's overall credit commitments.

From this I think ELL ought to have realised there was a high risk it was unlikely the new *loan repayments would be sustainable for Mrs D over a two-year period and there was a risk she would need to borrow to repay or suffer other financial harm. And to meet its obligations this was what it needed to check, not just the pounds and pence affordability.*

In addition if Mrs D was using some of the loan to clear her mail order debt, it's reasonable to assume these debts were likely on lower interest rates. Taking this loan was increasing Mrs D's overall indebtedness and prolonging her use of high-cost credit. So I don't think ELL can reasonably argue that giving the loan to Mrs D wasn't most likely having some kind of adverse impact on her financial situation.

It follows I think ELL was wrong to give the loan to Mrs D.

I haven't found any evidence that ELL acted unfairly or unreasonably in some other way.

I then set out what ELL would need to do to put things right if I upheld the complaint.

Mrs D responded before the deadline agreeing with the outcome of the provisional decision. ELL did not respond.

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.

As neither party sent in any new information or evidence I have no reason to change the findings or conclusion set out in my provisional decision.

It follows I find ELL was wrong to give the loan to Mrs D.

Putting things right

I think it's fair and reasonable for Mrs D to repay the capital that she borrowed because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

It should:

- Remove all interest, fees and charges on the loan and treat all the payments Mrs D made as payments towards the capital.
- As reworking Mrs D's loan account will result in her having effectively made payments above the original capital borrowed, then ELL 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*.
- Remove any adverse information recorded on Mrs D's credit file in relation to the loan.

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

My final decision

I am upholding Mrs D's complaint. Everyday Lending Limited (trading as Everyday Loans) must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs D to accept or reject my decision before 31 December 2021.

Rebecca Connelley
Ombudsman