The complaint

Mr B complains that loans given to him by Everyday Lending Limited trading as Everyday Loans were unaffordable for him. He's complained using a claims management company (CMC) but for ease I'll refer to just Mr B.

What happened

Mr B applied for - and received - two loans from Everyday as follows:

	Date	Amount	Term	Repayment
Loan 1	14 April 2015	£1,000	24 months	£103.66
Loan 2	2 March 2017	£1,500	24 months	£152.16

He says that if Everyday had carried out thorough enough checks it would have seen the loans were unaffordable and it ought to have refused to lend to him.

Everyday looked into his complaint. It felt it had carried out reasonable and proportionate checks, and its decision to lend on each occasion was fair.

Mr B didn't agree with Everyday, so referred his complaint to us. One of our investigators looked into it. She said she didn't think Everyday had carried out reasonable and proportionate checks when Mr B applied for the loans. She felt the decisions to lend to him were unfair and asked Everyday to put matters right.

Everyday didn't agree with our investigator. It said (in summary):

- It had used statistical information to calculate Mr B's expenditure and had used a minimum figure of £500 in his case.
- A £250 payday loan taken shortly before Loan 1 had been used to pay a one-off expense – a driving test – to avoid *"using overdraft [his] incorrectly"*. It said this indicated *"mature management of his account".*

As there was no agreement, Mr B's complaint has been passed to me for a final decision.

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 complaints about high cost credit on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

Everyday needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Mr B irresponsibly. The checks were to satisfy itself that Mr B would be able to repay the loan sustainably. It's not about Everyday assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on him.

There is no set list of checks that it had to do, but it could take into account several different things such as the amount and length of the loan, the amount of the monthly repayments and the overall circumstances of the borrower.

Loan 1

At the time of his application for Loan 1, Mr B was 19 years old and lived at home with his parents. He was earning around £850 a month which Everyday confirmed by reviewing some of his bank statements. While I don't have a copy of Mr B's credit file, I do have information that Everyday obtained from it. This shows he had no other credit commitments – just a current account which had no overdraft.

Everyday verified Mr B's income by obtaining a payslip and some bank statements. It doesn't appear to have verified any of his expenditure in any detail. Instead it says it used a figure of 35% of his net monthly income to calculate approximate personal expenditure with a minimum of £500 a month.

Looking at Mr B's bank statements, there is limited evidence of fixed expenditure; it doesn't seem he paid any rent, utility bills etc. His only regular outgoing appeared to be car insurance of around £50 per month. Given his age at the time and that he was living with parents, this is perhaps unsurprising. But the statements do show that he spent everything he received, and his savings account had gone from £350 in credit to zero over the course of the year. Again, this may not be surprising given his age and circumstances.

However, the bank statement also shows a payday loan of £250 just a few weeks prior to the application for Loan 1. Everyday says this was taken to pay for a driving test but, looking at the statements, I can see payments to Mr B's mother for this purpose. I also note that driving tests cost in the region of £100 in 2015 (theory and practical) so it doesn't seem likely that Mr B would have needed £250 to pay for a driving test.

It seems clear to me that Mr B was a very young man with limited financial experience. He had no other credit showing on his credit file but had recently resorted to taking out a payday loan. It's not clear to me why someone with a clear credit file would resort to a payday loan and a loan with an annual percentage rate of 199.8% over two years as Loan 1 was. It doesn't appear to show what Everyday refer to as *"mature management"* of his finances.

I think the circumstances and questions I've outlined above ought to have prompted Everyday to question Mr B more closely about his financial affairs. Rather than doing so, it based its decision on his credit file and average expenditure. I don't think Everyday carried out reasonable and proportionate checks on Mr B's application for Loan 1.

It's not possible to say precisely what Everyday would have found had it carried out further checks. But I think it is evident from the information it had gathered, that Mr B was spending more than he was receiving and was willing to take on credit at a high cost to maintain his lifestyle. I don't think this demonstrates that the loan would have been sustainable over the two-year period. It follows that I don't think it reached a fair decision to lend in this instance.

Loan 2

The application process appears to have followed a pattern similar to Loan 1. By now, Mr B was earning £1,140 per month and still living with parents. Everyday performed a similar calculation for Mr B's expenditure and again, set aside £500 for his living expenses.

By this time, Mr B had taken on several items of finance with balances approaching £13,000 at the time of the application. Approximately £8,800 of this was a hire purchase agreement for a car, with the remainder split across ten other agreements including payday loans, a credit card and mail order accounts. Total repayments to these agreements were £1,636 – around £500 more than Mr B earned monthly.

Mr L was looking to borrow £1,500 to consolidate his payday loans. Everyday calculated repayment of his five payday loans would reduce his repayments to other creditors to £208 per month. So I can see why it felt the new loan would be affordable to Mr B.

Everyday agreed the loan and settled two of Mr B's payday loans direct with the providers. These totalled £823 and had monthly repayments of approximately £205. The remainder of the loan (£677) was paid direct to Mr B.

So once the two loans Everyday settled were repaid, Mr B's expenditure had reduced by only £205, so he still had ongoing credit commitments of £1,431 – around £300 per month more than his income. He still had three payday loan balances totalling £1,200 (full repayment was due on each), and other credit commitments with balances of over £2,200. So the balance of Loan 2 which was sent to him was insufficient to repay the remaining payday loans or reduce his other commitments.

Had it repaid *all* Mr B's payday loans it may be that Loan 2 would have helped Mr B to tidy up his finances. But based on the figures Everyday has provided in its submissions to this service and final response and described above, this loan was never affordable for him.

It follows that I don't think Everyday carried out reasonable and proportionate checks on the application. Had it done so, I think it would have concluded, as I have, that the loan was unaffordable and should have refused the application. I don't think it reached a fair decision when it agreed to lend to Mr B.

Putting things right

When I find that a business has done something wrong, I'd normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn't happened, as far as is reasonably practical. In this case, that would mean putting Mr B in the position he would be in now if he hadn't been given the loans. But Mr B was given the loans, used the money so it's right he should repay what he borrowed. But I don't think he should pay interest or charges on any money that was incorrectly lent to him.

So, I think Everyday should:

- Calculate the total amount Mr B received from Everyday and deduct from that figure the repayments he's made to each loan.
    - If this results in Mr B having repaid more than he received, any overpayments should be refunded to him. Interest at a rate of 8% simple per year should be added to any overpayments from the date they were made until the date of settlement*.
    - If the calculation means there's still a balance for Mr B to pay, Everyday should let Mr B know how much is outstanding and reach a suitable, affordable payment plan with him. I remind Everyday of its obligation to treat customers fairly.
- Remove any negative information recorded on Mr B's credit file regarding each loan.

* If Everyday considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr B how much it's taken off. It should also give him a tax

deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

My final decision is that I uphold this complaint. Everyday Lending Limited trading as Everyday Loans should put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 14 March 2022.

Richard Hale
Ombudsman