DRN-3238137

The complaint

Mr H complained that Progressive Money Limited lent to him irresponsibly and provided him with unaffordable lending.

What happened

Progressive provided a loan to Mr H as follows:

Date taken	Amount	Term months	Monthly payment	Amount repayable	Date repaid
May 2017	£5,000	48	£243.99	£11,711.12	23/04/2019

One of our adjudicators looked at the complaint and thought that Progressive shouldn't have provided the loan. Our adjudicator explained why she was recommending that the complaint should be upheld and she set out directions indicating what Progressive should do to put things right.

Progressive disagreed. It mainly said that using the loans for debt consolidation – in other words, to repay other debt – benefitted Mr H and improved his financial situation overall. It also said that his repayment record didn't suggest any affordability issues and Mr H benefitted from an interest rebate when he repaid the loan early.

So, as the complaint hasn't been resolved, it comes to me 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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. Having done so, I am upholding Mr H's complaint for broadly the same reasons as our adjudicator. I'll explain my reasons.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably afford the loan repayments alongside other reasonable expenses the borrower also has to pay.
This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation – a proportionate check might also require the lender to find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

I have reviewed the information Progressive gathered when it agreed to provide the loans. Alongside asking Mr H about his income and regular monthly outgoings, and looking at information on bank statements, Progressive also carried out its own credit checks to understand his credit history and current credit commitments. Progressive relied on a payslip which showed that Mr H's most recent pay was around £1,493 and also noted that his total income was boosted by an extra £260 or so per month from a lodger.

Like our adjudicator, I think the checks Progressive did were broadly proportionate. But I think Progressive should have been concerned to see that when Mr H applied for the loan, the credit report it obtained for him suggested he was in serious financial difficulty. He owed more than £7,500 on a number of credit cards that were all close to their limit and had been stuck around that level for the whole of the 12 months period reported on in the credit report Progressive obtained. He had outstanding unsecured loans, including one taken out just a couple of months earlier as well as a new credit card he had just acquired and had yet to use. He was substantially overdrawn at the bank and Mr H had only got back on top of his mortgage 6 months earlier after falling into arrears. There were other signs of payment problems on his record including a delinquent payday loan. It was apparent that Mr H had a long track record of reliance on taking out and using expensive credit. Not including his mortgage, Mr H owed £13,707.

Whilst having other outstanding lending or even an impaired credit history wouldn't be unusual for a borrower applying for this type of expensive borrowing, and it wouldn't necessarily be a bar to lending, I don't think Progressive took properly into account what the information it had gathered showed about Mr H's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

Progressive's checks showed that Mr H needed to pay approximately £867 in total each month in order to run his active credit accounts effectively (not including any mortgage).

So it was evident that his unsecured debt repayments cost Mr H around half of the total income Progressive thought Mr H could rely on.

Such a high level of debt relative to income is one of the hallmarks of someone in serious financial difficulty – and he still needed to pay £380 per month towards his mortgage, plus an extra £50 towards the arrears on this account.

I also think the figures Progressive relied on reflected the best possible case scenario. I say this because I don't think it was reasonable for Progressive to rely on a higher income figure it saw for the most recent month as necessarily indicative of the income Mr H could expect to earn every month – especially bearing in mind that its own account scoring system used different measures to work out what would be a reliable indicator of earnings and recorded a figure of £1,245.

Even with additional income from a lodger (which I'm mindful also wasn't something that could be guaranteed over the loan term) this would mean that Mr H's finances were most likely under even more stress than Progressive's income and expenditure calculations suggested.

As well as this, I think Progressive should've taken into account that the gambling it saw on Mr H's bank statements, bearing in mind his account was boosted by expensive credit and still stuck in overdraft, further pointed to the real risk that he wouldn't be able to pay this loan in a sustainable way.

I've thought carefully about what I think a responsible lender should have made of all this information and in particular whether it was enough for Progressive to make a fair decision to lend.

I think our adjudicator was right to say that the indications were that Mr H wasn't managing his money well and all the signs were that his finances were, in reality, under significant stress and his debt had become unmanageable.

I don't think Progressive was reasonably able to be satisfied in these circumstances that Mr H would be able to make its loan repayments in a sustainable way.

I've taken into account that Progressive applied part of the loan towards debt consolidation and reduced Mr H's credit balance by around £3,644. But I think the scale of Mr H's overall debt compared to the much lesser value of the loan and the extent of his evident reliance on taking out expensive credit would suggest that he would remain in serious financial trouble regardless.

Also, bearing in mind that Mr H wasn't using all the loan for debt consolidation, the extra repayment he'd need to make for this loan on top of the debt Progressive saw Mr H would still be responsible for paying (which it worked out would still cost £418) meant Mr H needed to pay a significant portion of his income towards credit.

And in my opinion, as a responsible lender, Progressive should've realised that Mr H would likely struggle to repay this loan – especially bearing in mind the 48 month loan term.

The fact that Mr H repaid the loan early doesn't mean that he was able to do so in a way that was sustainably affordable for him.

I've taken carefully into account everything Progressive said in response to our adjudicator's view, but this makes no overall difference to the outcome. Thinking about all the information Progressive had gathered, I can't reasonably say that it made a fair lending decision based on the information in front of it when it provided this loan.

I don't think Progressive was able to safely conclude that its loan would be sustainably affordable for Mr H so this is why I'm upholding Mr H's complaint.

Putting things right

I think it is fair and reasonable for Mr H to repay the capital amount that he borrowed, because he had the benefit of that lending.

But he has paid extra for lending that should not have been provided to him. In line with this Service's approach, Mr H shouldn't repay more than the capital amount he borrowed.

Progressive should do the following:

- add up the total amount of money Mr H received as a result of having been given the loan. The repayments Mr H made should be deducted from this amount

- if this results in Mr H having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement)

- whilst it's fair that Mr H's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So Progressive should remove any negative information recorded on Mr H's credit file regarding the loan.

*HM Revenue & Customs requires Progressive to deduct tax from this interest. Progressive should give Mr H a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold this complaint and direct Progressive Money Limited to take the steps I've set out above to put things right for Mr H.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 8 April 2022.

Susan Webb
Ombudsman