DRN-3319182

The complaint

Mrs P and Mr P (Mr and Mrs P), through their representative, complain that Progressive Money Limited approved them for a loan which they could not afford. If Progressive Money Limited had carried out the checks it ought to have done then it would have realised that Mr and Mrs P could not afford this loan.

What happened

Mr and Mrs P were approved for a joint loan for £5,000 in June 2017. It attracted a charge for credit of £5,450 and so the total to pay was £10,450.16 by 36 payments of just over £290 each month. The term was three years.

Mr and Mrs P complained in September 2020. Mr P has told us that '*I was having to borrow from other lenders to pay my monthly instalment and to survive'*

In November 2020 Progressive Money sent its final response letter (FRL). It outlined the details of the loan and accepted that it ought to have done more. It said in its letter of resolution that

> *'…although the relevant checks were completed on your account and your priority, committed and basic living costs were accounted for within the affordability assessment, we may have been more robust in questioning your financial circumstances at the time of the application.'*

And following on from this, as a resolution for the complaint, Progressive Money said that it was '…*offering to write off your remaining account balance of £2,032.04, which means should you accept the offer you would no longer be liable to make payments towards the account and your account with you will be closed.'*

One of our adjudicators looked at the complaint and issued two views, and in both he said he thought that the credit searches showed that Mr P had a high level of indebtedness and that the loan ought not to have been approved.

Progressive Money asked our adjudicator to review the complaint as it did obtain and check Mr and Mrs P's credit file and the bank statements.

Our adjudicator explained to Progressive Money on the telephone that the bank transaction lists it had sent to him were lists which had been fed through a system to analyse the transactions and he'd not seen the actual customer's bank statements. Progressive Money pointed out that there were some copy bank statements as well as the transaction lists which had been fed through a special accounting tool.

Progressive Money's view was that after repaying the loan for over a year the problem arose as Mr and Mrs P experienced an income reduction and were not able to pay the monthly repayments, but it was affordable at the time the loan was approved.

Our adjudicator issued a second view in which he said

'*I think that* [Mr P's] *combined monthly consumer credit repayment alone, including the monthly repayment for this loan, represented a significant proportion of their combined income. In these circumstances, I'm persuaded that there was a significant risk they wouldn't have been able to meet their existing commitments without having to borrow again.'*

The unresolved complaint was passed 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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website. I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- did Progressive Money complete reasonable and proportionate checks to satisfy itself that Mr and Mrs P would be able to repay the loan in a sustainable way?

- if not, would those checks have shown that Mr and Mrs P would have been able to do so?

The rules and regulations in place required Progressive Money to carry out a reasonable and proportionate assessment of Mr and Mrs P's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so Progressive Money had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mr and Mrs P undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Progressive Money to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Mr and Mrs P**.** Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

Considering this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the lower a 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 repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr and Mrs P's complaint.

A £5,000 loan over 3 years was a significant commitment and so I do consider that thorough and comprehensive checks needed to be carried out before lending. And I think Progressive Money did that. I have listened to the recorded call between our adjudicator and Progressive Money in which our adjudicator explains this.

The FRL states that Progressive Money had seen information to confirm Mr P's net monthly salary as ranging from £3,394 to £4,126 and so it used the figure of just over £3,394 when assessing the loan for affordability. For Mrs P, who was employed at the same place as Mr P, her net monthly salary was just over £2,146.

Other documents show that Progressive Money had recorded Mr P as having a *'Minimum Income customer'* of *'£4,500.00 Validated'*. And '*Minimum Income Partner £2,600 Validated'*. I am not sure that these were correct as there appears to be a contradiction in relation to Mr P's income.

I have reviewed the copy credit file search results Progressive Money has sent to us for Mr P which date from the time they were assessing the couple before lending. And Progressive Money has sent to us detailed copy bank transactions together with its own accounting tool analysis of those bank statements. I have reviewed them all.

In the FRL Progressive Money has said that it had carried out a full credit search and it knew that Mr P had high cost short term loans. Progressive Money explained to us that it had checked this and said in its FRL *'However, during a call on 26 June 2017 when questioned regarding the active high cost short term loans you explained that you had settled the active high cost short term loans in full.'*

The FRL refers to some recorded calls. Three copy recorded calls have been sent to us and I have listened to them. I note that all three post-date the agreement signatures for Mr and Mrs P (16 June 2017) and one of the calls is almost blank – the one dated 26 June 2017. The other calls contain no substantive conversations about the lending as they cover the administrative side of the loan.

Having reviewed all of the information then I can see that between Mr and Mrs P they earned quite a significant amount each month and yet I can also see from Mr P's credit file alone – plus both sets of the bank transaction lists – that they had a great deal of debt as well.

And further than that, it appears from careful review of the credit search done for Mr P that he had taken a second residential mortgage for £20,000 in November 2016 which was costing £818 a month, he had hire purchase agreements and one was costing £497 a month, and it was in arrears. He had taken several unsecured loans and one commenced just before he had applied for the Progressive Money loan. It was for £6,000 and was costing £382 a month.

Mr P had an active County Court Judgment (CCJ) which was relatively recent as the judgment date was 9 February 2012 and for £1,300.

I have not listed all the debts here but the summary at the head of the credit search report says:

Indebtedness Indicators	
Total Balances (All):	£55108
Total value of all current defaults:	£663
Total Balances (Loans/Instalment Credit):	£31620
Total Balances (Mortgage Accounts):	£20096
Total Balances (Revolving Credit/Budget):	£2330
Total Limits (Revolving Credit/Budget):	£3053
Balance to Limit Ratio (Revolving Credit/Budget):	76 % (Anchor Calculated)

SHARE - Financial Data	
Number of Accounts:	73
Number of Active Accounts:	37
Number of Settled Accounts:	8
Number of Accounts Opened in Last 6 Months:	12
Number of Delinquent Accounts in Last 12 months:	4
Worst Payment Status in Last 6 Months:	D
Number of Defaults in Last 12 Months:	1
Number of Defaults in Last 36 Months:	1
Total Number of Minimum Payments in Last 12 Months:	20
Total Number of Minimum Payments in Last 36 Months:	25
Total Value of Cash Advances in Last 12 Months:	30
Total Value of Cash Advances in Last 36 Months:	1700

It does not take an experienced eye to realise that these facts alone demonstrate that Mr P was overindebted before he took Progressive Money's loan. Mr P had 37 active accounts, he had 12 which had been opened recently – in the previous 6 months – he had a default, a CCJ and was taking cash out from his credit accounts. And the accounts he did have he was making minimum payments on them.

Mr and Mrs P's bank statement transactions name and show many high cost short term lender repayments being paid through their respective bank accounts. And despite Progressive Money's statement in its FRL that *'during a call on 26 June 2017 when questioned regarding the active high cost short term loans you explained that you had settled the active high cost short term loans in full.'*, I have received no evidence of that.

And even if that was what Mr P told it on 26 June 2017, his bank account transactions show a different story and so Progressive Money ought to have checked this.

I cannot see that Progressive Money arranged to pay off any of the other credit commitment debts before advancing the money to Mr and Mrs P in early July 2017. I have no evidence that Mr P was planning to use this £5,000 loan to pay off other debts.

The information I have seen combined with the statement from Mr P that he was borrowing to pay off debts and to survive seems to be highly likely.

I do not consider that Progressive Money fully appreciated the debt situation the couple were in before lending and even though they carried out proportionate checks I do not think it applied that knowledge to assess the affordability.

And – added to all of this – is Progressive Money's concession in its FRL where it says that '…*we may have been more robust in questioning your financial circumstances at the time of the application.'* And because the following lines in that FRL were giving Mr and Mrs P an offer, and the general import of the FRL was to resolve the complaint, I think that what the complaint handler was saying is that it '*ought to have been more robust in questioning your financial circumstances at the time of the application.'* I agree. I uphold Mr and Mrs P's complaint.

Putting things right

In this case, I think it's fair that Mr & Mrs P should only have to repay the money they borrowed and had the use of. So, I think Progressive Money should refund all the interest and charges they have paid on the loan.

While I think it's fair that Mr & Mrs P's credit file is an accurate reflection of their financial history, I don't think it's fair that they should be disadvantaged by Progressive Money's decision to lend to them irresponsibly. Therefore, under the circumstances it should remove any negative information recorded on their credit file.

If Progressive Money has sold the outstanding debt Progressive Money should buy this back if it is able to do so and then take the following steps. If Progressive Money is not able to buy the debt back then it should liaise with the new debt owner to achieve the results outlined below.

A) Add together the total of the repayments made by Mr & Mrs P towards interest, fees and charges on the upheld loan without an outstanding balance, not including anything Progressive Money have already refunded.

B) Calculate 8% simple interest* on the individual payments made by Mr & Mrs P which were considered as part of "A", calculated from the date they originally made the payments, to the date the complaint is settled.

C) Remove all interest, fees and charges from the balance on the loan, and treat any repayments made by Mr & Mrs P as though they had been repayments of the principal on the outstanding loan. If this results in them having made overpayments then Progressive

Money 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. Progressive Money should then refund the amounts calculated in “A” and “B”.

If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on outstanding loan. If this results in a surplus then the surplus should be paid to Mr & Mrs P. However, if there is still an outstanding balance then Progressive Money should try to agree an affordable repayment plan with them. Progressive Money shouldn’t pursue outstanding balances made up of principal it has already written-off.

Remove any adverse information recorded on Mr & Mrs P’s credit file in relation to the loan.

*HM Revenue & Customs requires Progressive Money to deduct tax from this interest. It should give Mr and Mrs P a certificate showing how much tax it has deducted, if they ask for one.

My final decision

My final decision is that I uphold Mr and Mrs P’s complaint and I direct that Progressive Money Limited does as I have set out in the ‘putting things right’ part of my decision.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs P and Mr P to accept or reject my decision before 14 July 2022.

Rachael Williams
Ombudsman