DRN-3333749

The complaint

Mr W complained that Everyday Lending Limited trading as Everyday Loans lent to him irresponsibly and provided lending that was unaffordable.

What happened

Mr W took out loans with Everyday Loans as follows:

Loan	Date taken	Amount	Term	Monthly repayment	Loan status
1	Feb 2015	£3,000	36 months	£216.17	Paid when loan 2 taken
2	Nov 2015	£4,952.46	60 months	£298.16	Outstanding

When Mr W complained to Everyday Loans it didn't uphold his complaint so he brought his complaint to us. One of our adjudicators looked at the complaint and she thought that Everyday Loans hadn't done anything wrong when it provided loan 1 but didn't think it should have provided loan 2. Our adjudicator set out directions indicating what Everyday Loans should do to put things right.

Everyday Loans agreed with what our adjudicator had recommended in respect of loan 1 but disagreed that it had done anything wrong when it provided loan 2. So, as the complaint hasn't been resolved, it comes to me for a 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 general approach to complaints about unaffordable/irresponsible lending, including all of the relevant rules, guidance and good industry practice, on our website. Having thought about everything, I agree with our adjudicator for broadly the same reasons.

As far as I can see, Mr W hasn't objected to what our adjudicator said with respect to not upholding his complaint about loan 1. So I don't think I need to say more about loan 1 except that I've reviewed this loan and independently reached the same conclusion as our adjudicator. I haven't seen enough to say that Everyday Loans shouldn't have provided this loan – so I'm not upholding this part of Mr W's complaint.

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.

Everyday Loans asked Mr W about his income and expenses – including what he spent on his credit commitments. It also did its own credit check to understand Mr W's credit history. Everyday Loans recorded Mr W's average monthly take home pay was around £1,961 based on the information it saw on payslips and bank statements he provided to the lender. Everyday Loans also took into account nationally available statistics when thinking about Mr W's likely spending. Based on this, Everyday Loans said Mr W should've been able to afford the monthly repayment on this loan as he should still have had around £265 spare cash left *after* paying for this loan as he was partly using it to clear the balance owing on loan 1.

I've taken carefully into account everything Everyday Loans has said in response to our adjudicator's assessment about the way it assessed affordability. And 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 Everyday Loans to make a fair decision to lend.

Like our adjudicator, I think the checks Everyday Loans caried out were broadly proportionate. But despite recording information that appeared to show that Mr W had enough spare cash each month to cover the loan monthly repayments, I think Everyday Loans should've realised that it couldn't rely on this information. That's because what Mr W had declared was significantly at odds with what Everyday Loans saw on its up to date credit checks showing Mr W's credit history and the information it had gathered about his change in circumstances since he'd taken out loan 1.

I think Everyday Loans should have been concerned to see that when Mr W applied for this loan, just nine months or so after he'd taken out his first loan, despite being in a better paid job (and seemingly with lower living costs) he had taken out multiple short-term and unsecured loans from other providers of high cost credit since borrowing loan 1. A credit card he'd taken out shortly before borrowing loan 1 was also up to its £250 limit and his debt servicing costs to existing creditors were now around £900 monthly.

I think that this amount was such a significant proportion of his take home pay it was a clear indication that Mr W had become over-reliant on credit and, in reality, he was already experiencing financial difficulty.

I think Everyday Loans should've realised that Mr W's credit file showed that managing his debt had got beyond his control and it seemed likely he was borrowing from one creditor to pay others.

Even after using loan 2 to repay loan 1, his spending on credit would go up, because the monthly repayments for loan 2 were more expensive than for loan 1.

So I think Everyday Loans should have recognised that this loan was likely to add to his overall indebtedness and financial difficulty.

The monthly repayments for this loan would still mean Mr W needed to spend such a large proportion of his take home pay servicing debt, around half his total income. Like our adjudicator I think Everyday Loans should've realised this was unlikely to be sustainably affordable for Mr W over the five year loan term.

So I don't think Everyday Loans should've provided this loan.

I've taken into account that Everyday Loans said Mr W made his repayments to the loan until his circumstances changed. But this doesn't affect the outcome. For the reasons I've explained, I think it was reasonably foreseeable that the loan wasn't going to be sustainably affordable for Mr W over the loan term – and so it shouldn't have been provided.

As Mr W has been further indebted with a high amount of interest on a loan that he shouldn't have been provided with he has lost out as a result of what Everyday Loans did wrong.
I think Everyday Loans needs to take the following steps to put things right.

Putting things right

Our adjudicator didn't recommend that Everyday Loans should pay any additional redress. Mr W hasn't commented on that and I haven't seen anything which makes me think Everyday Loans acted unfairly towards Mr W in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Mr W to repay the capital amount that he borrowed, because he had the benefit of that lending. But he has been charged extra for a loan that should not have been provided to him.

In line with this Service's approach, Mr W shouldn't repay more than the capital amount he borrowed.

If Everyday Loans sold any outstanding debt it should buy this back if able to do so and then take the following steps.

Otherwise, Everyday Loans should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr W received as a result of having been given loan 2 . The repayments Mr W made towards loan 2 should be deducted from this amount.
- If this results in Mr W 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).
- If any capital balance remains outstanding, then Everyday Loans should attempt to arrange an affordable/suitable payment plan with Mr W bearing in mind the need to treat him positively and sympathetically if he still needs further time to pay what he owes.
- Whilst it's fair that Mr W's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend loan 2. So Everyday Loans should remove any negative information recorded on Mr W's credit file regarding loan 2 .

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

My final decision

I uphold Mr W’s complaint about loan 2 and direct Everyday Lending Limited trading as Everyday Loans to take the steps I've set out above to put things right.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr W to accept or reject my decision before 24 March 2022.

Susan Webb
Ombudsman