DRN-3334415

The complaint

Mr S complained that Everyday Lending Limited trading as Everyday Loans lent to him irresponsibly and provided a loan that was unaffordable.

What happened

Mr S took out a loan with Everyday Loans as follows:

Date taken	Loan amount	Term	Monthly repayment	Loan status
August 2019	£15,000	60 months	£416.50	PAID

One of our adjudicators looked at the complaint and didn't think Everyday Loans should have provided the loan. She mainly said that the lender's checks showed that Mr S was having problems managing his money. And even after using the loan for debt consolidation – in other words, to repay some other debt – Mr S would still be spending such a significant proportion of his income servicing debt that this wasn't likely to be sustainably affordable for him.

Our adjudicator set out directions indicating what Everyday Loans should do to put things right.

Mr S accepted what our adjudicator had said but Everyday Loans disagreed with our adjudicator's view. It mainly said that debt consolidation gave Mr S a monthly saving of £355.82 and left him with disposable income of more than £500. It also pointed to the fact that he made his payments in full and settled the loan early with no signs that the loan wasn't affordable.

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. I've looked at the complaint afresh and having thought about everything, I agree with our adjudicator for broadly the same reasons and I'm upholding this complaint. Here's why I say this.

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 S about his income and housing costs. It also did its own credit check to understand Mr S's credit history and see what he was paying for his existing credit commitments. It collected some payslips from him and saw bank statements covering the three months or so before he applied for this loan.

Everyday Loans recorded Mr S's average monthly pay was around £2,781 based on an average pay figure it worked out from looking at payslip details and saw that he also had income from a rental property of around £600 per month.

It allowed for Mr S needing to pay £300 per month board for his own accommodation. Everyday Loans also relied on nationally available statistics when thinking about Mr S's likely expenditure. And, after doing a credit check to see what his existing credit commitments were, based on all this information, Everyday Loans said Mr S should still have had around £504 spare cash left each month *after* paying for this loan and using it to pay some other debt that had been costing him approximately £355 each month. So Everyday Loans felt he should've been able to afford the monthly repayment on this loan.

Our adjudicator thought that Everyday Loans' had gathered enough information to have realised that its loan was unlikely to be sustainably affordable for Mr S. I agree.

I say this because, despite its affordability calculation appearing to show that Mr S had enough disposable income each month to cover the loan monthly repayments, I think Everyday Loans should've realised this was contradicted by what it saw in the other information it had gathered.

Everyday Loans saw that Mr S was already very substantially reliant on credit. He owed more than £19,000 on just two of his credit cards – both were close to their limit and he had been over the account limit on one of those cards within the previous three months. He had a similar amount of debt tied up in loans and instalment credit – bringing his total indebtedness to more than £42,000. I think this looked like a lot of unsecured debt for someone in Mr S's financial situation – especially bearing in mind that he was living in another household paying only a relatively small amount of board.

As well as this, Everyday Loans saw on Mr S's bank statements, provided during the application process and covering the period 4th June – 22nd August 2019, that Mr S was frequently overdrawn (often by a four figure amount), paying arranged overdraft fees each month and other bank charges. It looked like a number of direct debits were also reversed when he went over the arranged account limit. I don't think Everyday Loans properly took into account what all the information it had gathered showed about Mr S's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

I think Everyday Loans should've realised that Mr S was already over-reliant on taking out expensive credit and I think it should've been apparent that Mr S probably didn't have the amount of disposable income that Everyday Loans calculated.

His debt repayments were costing him around £1,800 each month, which was a large portion of his salary. Even with the planned debt consolidation Mr S would be paying more per month – the debts he planned to repay were costing him around £355 as Everyday Loans has mentioned, but his new monthly repayments for this loan cost more. If I assume Mr S's net income comprised his pay plus his rental income minus his own boarding costs, by my reckoning, Mr S was signing up to pay an amount effectively approaching half that net income. I'm also concerned that, realistically, there was some risk that Mr S couldn't rely with certainty on being able to let out his own house for the whole of the loan term without any break in rental income during periods when the property might be untenanted or it was being re-let. Overall, I think Everyday Loans saw enough to have realised it would likely be a struggle for Mr S to repay this loan with this level of income committed just to repaying debt – especially bearing in mind the 60 month loan term.

I've taken into account that Everyday Loans understood that the loan was partly intended for debt consolidation. But I think the scale of his overall debt compared to the much lesser value of the loan would suggest that Mr S would likely remain in serious financial trouble regardless. And, as mentioned above, it was in any event unrealistic to expect Mr S to be able to commit to paying such a significant level of income towards debt repayments over the five year loan term.

The fact that Mr S repaid the loan early doesn't mean that he was able to do so in a way that was sustainable.

So thinking about all the information Everyday Loans had gathered, I can't reasonably say that it made a fair lending decision based on the information it had gathered. I don't think Everyday Loans was able to safely conclude that its loan would be sustainably affordable for Mr S. So it shouldn't have provided it and Everyday Loans needs to put things right.

Our adjudicator didn't recommend that Everyday Loans should pay any additional redress. Mr S hasn't commented on that and I haven't seen anything which makes me think Everyday Loans acted unfairly towards Mr S in any other way. So I'm not awarding any additional redress. And I think it is fair and reasonable for Mr S to repay the capital amount that he borrowed because he had the benefit of that lending - but he shouldn't repay any more than this. So I've set out below what Everyday Loans should do to put things right.

Putting things right

Everyday Loans has confirmed Mr S made payments in full until he settled the loan early, so it should do the following:

- add up the total amount of money Mr S received as a result of having been given the loan. The repayments Mr S should be deducted from this amount.
- If this results in Mr S 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 S's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend this loan. So Everyday Loans should remove any negative information recorded on Mr S's credit file regarding the loan.

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

My final decision

I uphold Mr S’s complaint 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 S to accept or reject my decision before 10 May 2022.

Susan Webb
Ombudsman