DRN-3352072

The complaint

Mr B is unhappy that Everyday Loans Limited agreed to a loan he'd applied for as he said it was unaffordable for him.

What happened

In June 2019, Mr B took out a £5,100 loan with Everyday, to be repaid over 24 months with repayments of £336.45 a month. Mr B said the loan was to be used for debt consolidation. In August 2019 Mr B asked for an additional £2500, and Everyday consolidated Loan One and agreed to lend him £7510 payable over 42 months at £370.34 each month.

Mr B said Everyday shouldn't have approved the loan as it wasn't affordable when all his circumstances were taken into consideration. Mr B complained to Everyday as he didn't think they'd done enough to establish his true situation. Mr B said he couldn't afford the loan repayments, and Everyday had acted irresponsibly in lending to him.

Everyday said they'd carried out reasonable and proportionate checks that showed the loan was affordable. Everyday said they'd checked Mr B's bank statements, credit file, employment and payslip. They carried out an affordability assessment that showed Mr B had disposable income after considering his outgoings, so they deemed the loan to be affordable. Mr B wasn't happy with their response and referred his complaint to us.

Our investigator said Everyday's checks were proportionate and reasonable. She said these showed Mr B had sufficient disposable income to afford the repayments. And didn't ask Everyday to do anything differently.

Mr B didn't agree, he said Everyday should have seen he was having to borrow to meet his credit commitments. And that he was also gambling. Mr B asked for an ombudsman to make 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.

Having done so I'm not upholding this complaint. I'll explain why.

Mr B's complaint is that Everyday shouldn't have lent to him in August 2019. But in reaching my decision I've also considered the initial loan lent in June 2019.

I've considered the relevant rules, guidance and good industry practice when someone complains about irresponsible and/or unaffordable lending. There are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did Everyday complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the credit in a sustainable way?

    a. if so, did Everyday make a fair lending decision?
    b. if not, would reasonable and proportionate checks have shown that Mr B could sustainably repay the borrowing?

2. Did Everyday act unfairly or unreasonably in some other way?

Regulations in place at the time Everyday lent to Mr B required them to carry out a reasonable assessment of whether he could afford to repay the loan in a sustainable manner. This is sometimes referred to as an "affordability assessment" or "affordability check".

The affordability checks should be "borrower-focused", meaning Everyday need to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Mr B. In other words, it wasn't enough for Everyday to think only about the likelihood that they would get their money back without considering the impact of repayment on Mr B himself.

There's no set list for what reasonable and proportionate checks are. But I'd expect lenders to consider the specific circumstances of the loan application. What constitutes a proportionate affordability check will generally depend on several factors such as the specific circumstances of the borrower, their financial history, current situation and whether there are any indications of vulnerability or financial difficulty.

But there are factors which could influence how detailed a proportionate check should be for a given loan application. For example:

- the 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 amount from a particular level of income); and
- the longer the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the consumer is required to make payments for an extended period).

So, I've considered whether Everyday in lending to Mr B had been thorough in the checks they made. And whether they've taken all these factors into account in deciding to lend to him.

For the June 2019 loan of £5,100, Everyday considered Mr B's credit file, employment and bank statements. Everyday said Mr B's credit file didn't show he was having any difficulty in repaying his existing financial commitments. It showed he'd a loan, three credit cards a mail order account, public utilities and a communications supplier. Everyday also saw Mr B's bank statements for the two months prior to the loan, and a payslip for April 2019. And from this information they used a monthly income of £3,601.19 based on his April payslip - £3452.12 and benefit income of £149.07 (calendar month). Mr B paid a monthly rent of £1,350. His monthly credit commitments were £429.44. Everyday calculated that after inclusion of the new loan and a standard industry adjustment for day to day living costs, they'd calculated Mr B would have a disposable income of £188.30.

Everyday understood the loan was to be used for consolidation of borrowing, and this would suggest Mr B's credit commitments would be reduced. I know Mr B said he settled his active loan but not his credit cards. This would have seen his credit commitments determined by

Everyday to reduce from £429.44 to £82.44, which should have given Mr B more income at his disposal. Based on their affordability assessment Everyday deemed the loan was affordable.

I've looked at the information Everyday would have seen, including Mr B's bank statements. He provided two accounts, a bill account and the account his salary was paid into. And Everyday's assessment seems reasonable and in line with this information. Mr B has said he'd a payday loan of £1,000 which he said was paid into the same account as his salary. The bank statements Mr B provided don't show this transaction being paid into the account. But I can see transfers from the account into his bill account around this time that add up to about this amount. But I can see that there were regular transfers going to and from both accounts throughout the month. So, I don't think this would have appeared to be unusual activity.

Mr B also wanted the loan to consolidate his existing debt. So, I don't think Everyday acted irresponsibly lending to him on the checks they did, And I can't say that Everyday did anything wrong by not taking into consideration something they were unaware of.

Mr B asked for a top up loan very quickly after the initial loan was agreed. So,again, I've looked at whether Everyday carried out proportionate checks before agreeing to lend to Mr B.

The loan was for £7510 as it consolidated the original loan of £5100. The monthly repayments were £370.34 repayable over 42 months. Everyday's affordability assessment used a salary of £3330.33 and monthly benefit of £147.09, in total £3,479.40. Mr B's outgoings, rent - £1,350, credit - £584.92 (including the £336.45 for Loan One and £156.73 for a £1,000 loan) and day to day livings costs estimated at £1,114, with the adjustment for the previous loan amount of £336.45 and the new Everyday loan amount of £370.34, Everyday calculated Mr B had a disposable income of £396.50. Everyday took from this calculation that the loan was affordable.

I've considered the checks they made, and Mr B's income is accurately reflected in the assessment. Mr B's credit commitments are more than I can see from his credit file and bank statements, as I can't see the £156.43 payment that's been included. Everyday has also allowed £1,114 for day to day livings costs and again this seems to be higher than the living costs evident from Mr B's bank statements and credit file. Again, there are a number of transfers between Mr B's two bank accounts but I haven't seen anything to raise concerns about unusual spending.

Mr B has referred to some gambling transactions. And I can see in April 2019 that there are gambling transactions on his account but these appear to be isolated transactions and not evidence that Mr B was struggling with compulsive spending.

I know Mr B will be disappointed in my decision but the information, and evidence, that Mr B gave to Everyday suggested that he could sustainably afford the loan repayments. I think Everyday was entitled to rely on that information and conclude that they should lend to Mr B. So, I don't think the loan was lent irresponsibly.

I understand Mr B's personal circumstances have changed. I can see he's made Everyday aware of his financial difficulties and that he is working with a debt counselling service. I expect Everyday to work with Mr B in a positive and sensitive way while he goes through these difficult times.

My final decision

I don’t uphold this complaint

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 23 June 2022.

Anne Scarr
Ombudsman