

The complaint

Mr W complains that Everyday Lending Limited (trading as Everyday Loans) granted him a loan that was unaffordable for him.

What happened

In mid-2021, Mr W took out a loan for £1,200 with Everyday Lending. The loan was to be repaid over 24 months with the repayments set at £107.28 a month. The total amount to be repaid was £2,574.72.

Mr W later complained that Everyday Lending lent to him irresponsibly because the loan was unaffordable for him. He said he'd been unable to make any payments due to a change in his circumstances and was also suffering from mental health issues. He was also unhappy with how he'd been treated when he'd tried to arrange a repayment plan.

Everyday Lending said it had completed affordability checks which it believed were reasonable and proportionate. These showed the loan was sustainable as Mr W had disposable income. Everyday Lending acknowledged that Mr W had offered to pay £30 a month but it said it needed to see his bank statements to fully understand his financial situation.

Mr W remained unhappy, so he asked our service to consider his complaint. Our investigator looked into his concerns and thought his complaint should be upheld. She didn't think Everyday Lending should have granted Mr W the loan because it didn't look like it was sustainable. However, she didn't think it was unreasonable for Everyday Lending to have asked Mr W for bank statements as this would help it decide what reduced payment was affordable for him to pay each month.

Mr W accepted our investigator's view, but he made some further comments about his mental health and how Everyday Lending had treated him.

Everyday Lending disagreed with our investigator's view. It said its income and expenditure calculation had included a buffer. The Everyday Lending loan meant a reduction in Mr W's expenditure because it was consolidating debt. Mr W's income was calculated on his basic salary, but his contract of employment showed he had the potential to earn more because of overtime and a bonus. It said there was nothing in Mr W's statement or credit file to suggest he'd been struggling financially with his existing creditors and the increased amount he was paying prior to consolidation. So, the complaint has been 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.

Having done so, I've decided to uphold Mr W's complaint. I'll explain why.

The relevant rules, regulations and guidance required Everyday Lending to carry out reasonable and proportionate checks to ensure Mr W could afford to repay the loan in a sustainable manner.

The checks needed to be borrower-focused. It wasn't enough for Everyday Lending to think only about the likelihood of getting its money back. It also had to ensure that making the repayments wouldn't cause Mr W undue difficulty or have adverse consequences for him. There isn't a set list of checks that lenders need to carry out, but they should be proportionate, taking a number of factors into consideration. These factors include the amount, type and cost of the credit as well as the personal circumstances of the consumer.

Everyday Lending gathered information from Mr W before the loan was agreed. It asked for information about his employment, housing costs and living expenditure. It looked at his contract of employment to verify his income. It also reviewed bank statements and checked his credit file.

Everyday Lending worked out that Mr W's net monthly income was £1,438 from the information on his employment contract. Everyday Lending has noted that Mr W's contribution towards his rent was £287.50 per month. It calculated Mr W's existing creditor repayments to be £604 a month. Everyday Lending worked out that his other expenses were around £635 which included a buffer of around £30.

Everyday Lending calculated that Mr W had a monthly disposable income of £52, after taking into account his consolidated loans and monthly repayments for the Everyday Lending loan.

I think the checks Everyday Lending carried out were proportionate. But it also needed to properly consider the information it obtained from the checks to ensure it was making a fair lending decision. And I'm not persuaded that it did.

Everyday Lending's calculations indicated that Mr W would be left with very little disposable income after making the loan repayments, even taking into account the £30 buffer. Everyday Lending has commented that Mr W had the potential to earn more than his basic salary as his employment contract refers to overtime and a bonus. But I can't see that this additional income was guaranteed. It's also a concern that the loan was granted around the time that Mr W was starting a new job with a probation period of three months.

I appreciate that Mr W was taking out the loan in order to consolidate some other debts and Everyday Lending has commented that his total loan repayments would be lower than they were previously. But the information Everyday Lending gathered shows that Mr W's total debt balance was over £11,000. So, the Everyday Lending loan would have had a limited impact on Mr W's existing debt if used for consolidation. There was also a risk of the funds not being used to consolidate existing debt.

I think Everyday Lending should have realised that Mr W would likely have had difficulty repaying the loan sustainably. I don't think his employment was particularly secure, given he was about to begin his probation period. And I don't think his disposable income would likely have been enough to cover any unexpected outgoings he may have had during the period of the loan. It follows that I don't think Everyday Lending acted responsibly when it granted Mr W the loan.

Mr W has also raised concerns about how Everyday Lending treated him when he told them he was unable to make his repayments. I understand he was particularly unhappy that Everyday lending wouldn't agree to a payment plan without seeing his bank statements.

I can see that Mr W emailed Everyday Lending about a month after he took out the loan. He said he was unable to make payment because he'd left his job. He asked how he could set up an arrangement plan or pause payments. Everyday Lending has noted that it requested bank statements so it could better understand his situation. I don't think it was unreasonable for Everyday Lending to have done so.

Everyday Lending's records show that it tried to contact Mr W several times to arrange an affordable repayment plan for him. But it wasn't able to do this without a proper understanding of Mr W's financial situation.

I understand Mr W has been experiencing some issues with his mental health and found contact from Everyday Lending stressful. But Everyday Lending has shown it's willing to agree an affordable repayment plan with Mr W. I hope Mr W will work with Everyday Lending to repay anything he might still owe.

Putting things right

I think it's fair and reasonable for Mr W to repay the principal amount that he borrowed because he's had the benefit of that lending. But he has paid interest and charges on a loan that shouldn't have been provided to him. So, Everyday Lending should:

- Remove all interest and charges from the loan and treat any payments Mr W made as payment towards the capital.
- If reworking Mr W's loan account results in him having effectively made payments above the original capital borrowed, then Everyday Lending should refund these overpayments with 8% simple interest on the overpayments from the date they would have arisen to the date of settlement*
- If reworking Mr W's loan account leaves an amount of capital still to be paid, then Everyday Lending should take a sympathetic view when seeking to agree an affordable repayment plan with Mr W for the revised balance.
- Remove any adverse information recorded on Mr W's credit file in relation to the loan.

*HM Revenue & Customs requires Everyday Lending to deduct tax from this interest. Everyday Lending should give Mr W a certificate showing how much tax it's deducted, if he asks for one.

My final decision

For the reasons I've explained, I uphold Mr W's complaint and direct Everyday Lending Limited to put things right as I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 15 June 2022.

Anne Muscroft
Ombudsman