DRN-3404640

The complaint

Mrs M and Mr M (Mr M is represented), complain that Everyday Lending Limited, trading as Everyday Loans, lent to them irresponsibly. For ease I will refer to the two complainants as 'Mr and Mrs M'.

What happened

Using information gathered from Everyday Lending's records, here is a brief table of the approved loans.

Loan	**Date taken**	**Total Amount**	**Term**	**Monthly repayment**	**Amount lent net of interest**	**Date repaid**
1	16/04/15	£4,734.72	24 months	£197.28	£2,000.00	20/11/15 – loan 2 capital used to repay balance
2	20/11/15	£10,821.96	36 months	£300.61	£4,000.00	February 2017
3	February 2017				£5,000	withdrawn

One of our adjudicators looked at the complaint and considered that Everyday Lending needed to put things right for Mr and Mrs M in relation to loan 2. No mention was made of loan 3 and it had been withdrawn.

Mr and Mrs M replied to say that they had paid off loan 2. They did not make any additional comment about the adjudicator's view or the outcome and have sent no additional evidence.

Everyday Lending disagreed with our adjudicator's view about loan 2 and said that the defaults referred to were historic and Mrs M's bank statements it had reviewed showed a well run account with no indication of financial difficulty.

Everyday Lending went on to say:

> *'Therefore I do not believe that there is sufficient evidence to suggest that because both customers were paying approximately 36% (as per your calculations) of their income towards creditors means this loan was irresponsibly lent or unaffordable to them as our affordability assessment demonstrates that they had significant disposable income.'*

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.

Taking into account the relevant rules, guidance and good industry practice, what I need to consider in deciding what’s fair and reasonable in the circumstances of this complaint are whether Everyday Lending completed reasonable and proportionate checks to satisfy itself that Mr and Mrs M would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr and Mrs M would’ve been able to do so?

If I determine that Everyday Lending did not act fairly and reasonably in its dealings with Mr and Mrs M and that they have lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Everyday Lending to carry out a reasonable and proportionate assessment of Mr and Mrs Ms’ 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 Everyday Lending had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Mr and Mrs M. In practice this meant that business had to ensure that making the payments to the loan wouldn’t cause Mr and Mrs M them undue difficulty or significant adverse consequences.

In other words, it wasn’t enough for Everyday Lending 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 M 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 several 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.

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 of time 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 M’s complaint.

Having reviewed the complaint, Mr and Mrs M’s reaction to our adjudicator’s opinion suggests to me that they do not disagree with it. Even if they did disagree with the outcome on loan 1 (non-uphold) I have reviewed what it was that Everyday Lending did before it approved loan 1. I think that Everyday Lending did proportionate checks and as new customers to Everyday Lending I'd not expect it to have done more. So, I do not uphold Mr and Mrs M's complaint about loan 1.

As for loan 2, a great deal had altered between the approval of loan 1 and the approach to Everyday Lending for additional credit in November 2015. Using Everyday Lending's own records, I have seen that Mr and Mrs M both had obtained a great deal more credit and debt commitments in the short time between the loan 1 approval and needing loan 2. And Everyday Lending knew this.

Added to which, the loan 2 repayment obligation was for three years, were higher repayments each month and the overall amount to be repaid was significant at around £10,800. So, I think a full financial review ought to have been carried out before approving loan 2. It seems likely that Everyday Lending did that, and one of the documents which has showed it knew a great deal about the Mr and Mrs Ms' financial situation was the 'consolidation' table prepared as it was considering their loan 2 application. Mr and Mrs M had a lot of outstanding home credit and unsecured loans. Everyday Lending sent cheques to some of their creditors to clear some debt and following on from that the regular repayments were reduced for Mr and Mrs M.

However, that does not take account of the detail, which was that even after the debt consolidation, and including the new loan repayment of just over £300 a month, then the total amount they jointly would have to have paid a month was about £750.

This was a high figure and Mr M's salary had reduced. I can see from his payslips (records of which Everyday Lending has provided to us) that his hours had reduced from around 50 or 51 hours each week in April 2015 to around 35 or 37 each week in November 2015. Therefore, Mr M had a correspondingly lower wage after tax each week. Everyday Lending had used their joint income as being a figure of around £2,086 (less than for loan 1).

Everyday Lending had calculated their living expenses for loan 2 as being figures of around £730 plus their rental costs of £490 which comes to around £1,280. Even on their own figures, plus the obvious repayment amounts still required to their remaining creditors which I have added up to be around £750 in a month, then Mr and Mrs M would have been left with around £116 after all their repayments and living costs and rent had been accounted for. For a family with young children I consider this to have been too low a 'left over' figure. Especially considering that the debt commitment was for 36 months.

And even leaving this to one side, the percentage of their joint income on the loan was high at 36% and I disagree with Everyday Lending when it says they had plenty of disposable income. The salary drop by Mr M in the short few months between April 2015 and November 2015 ought to have been a concern. Added to which the large increase in their joint debt level in those same few months ought to have been an alert to Everyday Lending.

I have considered Everyday Lending's submission to us recently and I do not consider it makes logical sense. The historic defaults may not have made a difference to the Everyday Lending decision. A high level of repayment was required for loan 2 plus Everyday Lending knew all of Mr and Mrs M's other debts even after the debt consolidation using the loan 2 capital.

These points, together with my use of the figures Everyday Lending had supplied to us to calculate that Mr and Mrs M would have been left with a low figure after paying everything off leads me to conclude that Mr and Mrs M were unlikely able to afford loan 2 comfortably and without being at risk of being in undue difficulty or facing significant adverse consequences.

I note that even though Mr and Mrs M had told Everyday Lending at loan 2 that they never wanted to take home credit loans again, when they did return to Everyday Lending for loan 3 they had acquired further home credit loans. This would not, obviously, have been relevant to the loan 2 approval decision, but it demonstrates that Mr and Mrs M did tend to obtain credit regularly.

I uphold Mr and Mrs M’s complaint about loan 2.

Loan 3 was arranged and used to repay the loan 2 balance. I have seen from Everyday Lending account notes that Mr M received some money from a family member and paid back all he owed and incurred no interest. So, there was no loss in relation to this loan and I have not assessed it for irresponsible lending.

Putting things right

Everyday Lending needs to do as follows:

- refund all interest and charges Mr and Mrs M paid on loan 2;

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement*;

- remove any negative payment information about loan 2 from Mr and Mrs M’s credit files;

* HM Revenue & Customs requires Everyday Lending to take off tax from this interest. It must give Mr and Mrs M a certificate showing how much tax it’s taken off if they ask for one.

My final decision

My final decision is that I uphold Mr and Mrs M’s complaint in part and I direct that Everyday Lending Limited does as I have outlined above in the ‘putting things right’ part of my decision.

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

Rachael Williams
Ombudsman