The complaint

Mr F said Everyday Lending Limited trading as Everyday Loans lent to him irresponsibly.

What happened

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

Date taken	Amount	Term	Monthly repayment	Total amount repayable	Loan status
09/11/2016	£2,500	36 months	£242.61	£8,733.96	live

Mr F said that he was given the loan when he clearly didn’t have the funds to pay it and he feels the loan was pushed through due to the lender wanting to earn commission. He said the loan defaulted very quickly as the interest rate was so high and he is now repaying the loan through a payment arrangement worked out with the help of a debt charity.

Our adjudicator thought that Everyday Loans had seen enough from its checks to have realised that Mr F was already having problems managing his money – in particular, Everyday Loans saw that he was gambling over £250 per month and our adjudicator said the repayment of the loan represented a significant proportion of Mr F’s income.

Mr F didn’t respond to our adjudicator’s view but Everyday Loans disagreed. It mainly said that the bank statements it saw showed that Mr F’s bank account had a positive balance throughout the time period viewed with one dip into overdraft for less than a day. Everyday Loans felt this showed he managed his money extremely well and that he was very aware of his bank balance.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

“As things stand, I haven’t currently seen enough evidence to enable me to say that Everyday Loans made an unfair lending decision when it provided this loan. I’ll explain why I say this.

Everyday Loans was required to lend responsibly. 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.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Checks had to be borrower-focused. So Everyday Loans had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr F. In other words, it wasn't enough for Everyday Loans to think only about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Mr F.

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.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- *the lower a borrower's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income)*
- *the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income)*
- *the longer the period of time a borrower will be indebted (reflecting the fact that the total cost of the credit is likely to be greater and the borrower is required to make repayments for an extended period).*

I've kept all of this in mind when thinking about whether Everyday Loans did what it needed to before agreeing to lend to Mr F and I've considered the following questions:

- *did Everyday Loans complete reasonable and proportionate checks when assessing Mr F's loan application to satisfy itself that he would be able to repay the loan in a sustainable way? If not, what would reasonable and proportionate checks have shown?*
- *did Everyday Loans make a fair lending decision?*
- *did Everyday Loans act unfairly or unreasonably in some other way?*

Everyday Loans asked for some information from Mr F before it approved the loan including details of his income and his monthly spending. It told us it worked out what Mr F's likely monthly salary would be by checking the information it saw detailing his pay in his contract of employment – and it also saw a payslip. It reviewed his credit file to understand his credit history and existing commitments. It also relied on statistical information and factored into its calculations an amount that reflected the typical monthly expenditure someone in Mr F's position might reasonably expect to pay according to national UK averages worked out by the Office for National Statistics. It also asked about the purpose of the loan. Based on the information it gathered, Everyday Loans concluded Mr F would be left with ample spare cash after making his Everyday Loans loan repayments and so he should've been comfortably able to afford the loan.

Everyday Loans recorded that Mr F's monthly earnings were around £1,623. It worked out that his likely monthly outgoings were around £587 – leaving him with more than £1,000 spare cash each month. So it looked like the monthly repayments for this loan would be easily affordable.

The results from Everyday Loans' credit checks showed Mr F had only a limited amount of outstanding credit – he owed just over £600 spread over three credit cards. I haven't seen anything to make me think Everyday Loans should've been concerned by what it saw in its credit checks.

Mr F had told Everyday Loans he wanted the loan for car repairs and to pay some of his other debt. I think those would've seemed plausible reasons to lend. The longer it takes to pay credit card debt the more expensive this type of borrowing becomes – so settling credit card debt in one go can sometimes be a useful way to help limit costs and manage credit more easily. And it would be understandable that Mr F might prefer to borrow money to pay for a one-off expense rather than draw on his available spending money to cover this cost.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or even an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application.

I think the checks Everyday Loans did went far enough and they were broadly proportionate in the circumstances. Overall, given that this was Mr F's first loan with Everyday Loans, the monthly repayment was a relatively small percentage of his monthly income and he'd given a reasonable explanation for needing this loan, I don't think there was anything in the information Everyday Loans gathered that ought to have led it to a different lending decision.

In saying this, I'm mindful that Everyday Loans saw that in the month running up to Mr F taking out this loan he had spent around £250 on online gambling. But I think it's fair to say that this seemed to be spending that was affordable for Mr F and apparently under his control – the bank statements Everyday Loans saw don't suggest his gambling was leading to any serious money problems for Mr F and it did look like he was able to manage his spending within the account limits. He was single and living free of charge in another household and free to spend his money as he chose. I can see from its notes that Everyday Loans did consider this information before agreeing to lend. And I think it was reasonably entitled to the view that the information it saw wasn't enough to show that Mr F was recklessly spending money he couldn't afford on an addiction he couldn't control.

I've thought about the possibility that Mr F mightn't have used the loan to repay any of his existing credit card debt – so he'd still be paying for this alongside the new loan. But, even assuming he repaid 5% of his total outstanding card balance each time in order to make some inroads into clearing it within a reasonable period of time, his overall spending on credit commitments would still have looked easily affordable at less than £300, given this should still have left him with around £700 – ample to cover a £250 monthly spend on gambling.

I think Everyday Loans was reasonably entitled to rely on the information it gathered and that its lending decision was fair, based on what it saw. It follows that I don't think Everyday Loans was wrong to give the loan to Mr F and so there's nothing Everyday Loans needs to do to put things right.

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

I've thought about what Mr F has said about the high cost of the loan. I think there was a large amount of interest payable and I can appreciate that Mr F might now feel this was unfair. But the loan documents set out the terms and the amount of interest payable. Mr F had to actively engage in the loan application process.

Whilst he's said he feels the process was rushed, I think this perhaps reflected the fact that, like other providers of this sort of credit, Everyday Loans has largely automated processes in place to enable it to give borrowers a quick lending decision. The loan was arranged online and I think Mr F would've understood that it was up to him to choose whether or not he wanted to go ahead with the loan offered.

Taking everything into account, I think Mr F was aware he was taking a high cost loan on terms he seemed happy to agree to at the time. So I can't fairly say that the high cost of this credit is a reason for me to uphold Mr F's complaint. I appreciate this is a disappointing outcome for Mr F but hope setting out the reasons as I've done will help explain how I've reached my conclusions."

What the parties said in response to my provisional decision

Neither Mr F nor Everyday Loans has sent me any further information. The deadline for responses has now passed so I think it's reasonable for me to proceed with my review of this complaint.

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

My final decision

For these reasons, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 5 May 2022.

Susan Webb
Ombudsman