DRN-3536749

The complaint

Miss G complains through her representative that Everyday Lending Limited trading as Everyday Loans lent her money on a high cost loan that she was unable to afford to repay.

What happened

Everyday provided Miss G with a loan for around £1,922 on 14 January 2019, repayable over 36 months at a monthly instalment of around £129. The entire loan was for the consolidation of three of Miss G's loans, no funds were released directly to Miss G.

Miss G got into difficulties over the payments and consulted a debt management advisor in May 2019. After that, Everyday agreed to accept reduced payments. Miss G continued with reduced payments but also missed some payments because of a change in her circumstances. As far as I know the loan still has outstanding payments due.

Miss G complained about the affordability of the loan in February 2022. Everyday said it had carried out necessary checks, including a credit check, and verified her income. It used ONS (Office for National Statistics) data to assess her outgoings at 35% of her net income, adding a 10% buffer to account for unexpected payments. Its affordability calculation conducted at the time showed she had a monthly disposable income of £48.40 after taking into account consolidated loans and the new loan monthly repayments. So, it assessed that the loan was affordable.

Our adjudicator said the results of Everyday's checks showed Miss G's total monthly credit repayments represented a significant proportion of her income. So, there was a significant risk that Mrs G wouldn't have been able to meet her existing commitments without having to borrow again. So, she thought it was unlikely Mrs G would've been able to sustainably meet her repayments for this loan.

Everyday disagreed, pointing out that it had applied a buffer and general living expenses of £628.00 when the affordability was calculated.

The matter has been passed to me for further consideration.

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.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Everyday complete reasonable and proportionate checks to satisfy itself that Miss G would be able to repay the loan in a sustainable way?

- If not, would those checks have shown that Miss G would have been able to do so?

The rules and regulations in place required Everyday to carry out a reasonable and proportionate assessment of Miss G's ability to make the repayments under the agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so Everyday had to think about whether repaying the loan would be sustainable. In practice this meant that Everyday had to ensure that making the repayments on the loan wouldn't cause Miss G undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for Everyday to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Miss G**.** 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 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 such a 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 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).

Miss G and her partner were earning a fairly low income (assessed to be in total around £1,218 net a month), and the loan repayments were relatively high compared to that income. So Everyday should have carried out a thorough assessment of her financial circumstances before deciding whether to issue the loan.

According to the credit report Everyday obtained, and its own assessment of Miss G's credit commitments, allowing for the barest minimum payments (of 3% of the outstanding balance) on a credit card and a payday loan in default, amounted to around 73% of her assessed income. Two payday loan payments were weekly figures. And one loan payment was expressed to be "periodic" rather than monthly. However I can understand that Mrs G wanted to consolidate some of those loans, to bring down that figure. If I assume the "periodic" loan (which was one of those being paid off) was due to be paid monthly, the new loan would have reduced Miss G's credit commitments by around £473 a month. But the new loan payment would have to be added back to that figure. With the new loan, and the three consolidated loans being repaid, I calculate that Miss G would have had credit commitments of around 44% of her income, still quite a high figure.

I think that figure may have been sustainable had there been enough disposable income for Miss G to afford the new loan. But Everyday's own calculations produced a figure of £48.40 for this. Even although Everyday added in a 10% buffer for unexpected expenditure I still think this was too low. For instance I've noted that Everyday allowed 3% payments for the credit card, and the defaulted loan. If this were 5% which is what we would normally say is reasonable to allow, this would bring the disposable income down to £8.40.

So, noting that Miss G was already heavily in debt before approaching Everyday and the attempt to bring down her debt level by consolidating three loans, I don't think that her disposable income and her income to credit ratio made the new loan sustainable for her. This is evidenced by the fact that very shortly after the loan was issued she got into problems with repaying it.

Whilst I think Everyday made proportionate checks to assess the affordability of the loan, I think those checks should have led to the conclusion that it was unaffordable. So I don't think Everyday made a fair lending decision.

Putting things right

Miss G has had the capital payment in respect of the loan, so it's fair that she should repay this. So far as the loan is concerned, I think Everyday should refund all interest and charges as follows:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Miss G as payments towards the capital amount.
- If Miss G has paid more than the capital, refund any overpayments to her with 8% simple interest* from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, Everyday should come to a reasonable repayment plan with Miss G.
- Remove any adverse information where appropriate about the loan from Miss G's credit file, but this does not need to be done until the loan has been repaid.

*HM Revenue & Customs requires Everyday to deduct tax from this interest. It should give Miss G a certificate showing how much tax it's deducted if she asks for one.

My final decision

I uphold the complaint and require Everyday Lending Limited trading as Everyday Loans to provide the remedy set out under Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 25 July 2022.

Ray Lawley
Ombudsman