DRN-3600155

The complaint

Mr K, through his representative, complains that Everyday Lending Limited trading as Everyday Loans lent to him irresponsibly.

What happened

Mr K was approved for one loan in August 2014 for £6,500 for the main capital loan plus a secondary loan (life cover) for £189.20. The repayments were scheduled as 36 repayments of £315.50 for the main loan plus £9.18 each month for the secondary loan.

Mr K was due to repay 36 sums of £324.68 and the total repayable was £11,688.48. The agreement was due to end in August 2017. Mr K repaid it early on 29 March 2017.

In its final response letter, Everyday Lending thought that it had not done anything wrong. Mr K referred his complaint to the Financial Ombudsman Service.

One of our adjudicators considered the complaint and thought that at least 35% of Mr K's income was being used to repay his credit commitments and so our adjudicator considered that was too much for Mr K and upheld the complaint.

Everyday Lending disagreed and said that there were no rules stating what is or is not a 'significant' sum for repayments and it should not be a reason to refuse a loan. Its loan was to consolidate Mr K's payday loans. Everyday Lending says that there were no signs he was having problems managing his other finances or that he was relying on other forms of credit to supplement his income. And it referred to having seen his credit file and his bank statements.

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.

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

- Did Everyday Lending , each time it lent, complete reasonable and proportionate checks to satisfy itself that Mr K would be able to repay in a sustainable way?

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

- Did Everyday Lending act unfairly or unreasonably in some other way?

The rules and regulations in place required Everyday Lending to carry out a reasonable and proportionate assessment of Mr K's 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. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mr K undue difficulty or significant adverse consequences. That means he 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 he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

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 L**.** 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 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 K's complaint.

Everyday Lending does appear to have carried out checks that were proportionate considering the loan value, the term of the loan and that Mr K was a new customer. Having appreciated that Mr K received a good level of net salary (around £5,284) and that Everyday Lending had verified this with payslips, I can understand why it considered that Mr K was a suitable candidate for a loan of £6,500.

Mr K had told Everyday Lending that he was going to use its loan of £6,500 to '*clear all his payday loans'*. Everyday Lending had obtained a copy of his bank statements for the period leading up to August 2014 and that revealed that Mr K was repaying about nine or ten high cost credit (including high cost short-term credit) loans.

Everyday Lending created a schedule of his other credit commitments. I have duplicated here most of that loan table. I have added in the total figures at the end:

Credit type & identified	Balance	Repayment (monthly)

Loan – Lender TL	£3,800	£239.67
Loan – Lender AC	£1,500	£217.41
Loan – Lender TM	£6,357	£353
Credit card	£217	£0
Loan – Lender UK C	£3,737	£190
Credit card	£7,964	£239
Guarantor Loan	£2,908	£201
Totals	**£26,483**	**£1,440.08**

And these listed in the above loan table included several credit card debts and other loans which amounted to £26,483 and a monthly cost burden of around £1,440. And that figure was one which only accounted for the payment of the minimum payment required on the credit cards (combined balance around £8,181) and did not make provision for the reduction required on the main balances on those cards.

In addition, I have seen from the bank statements and the statements of account from other lenders which were sent to Everyday Lending by Mr K at the time he applied for the loan the following additional debt commitments:

Credit type & identified	**Balance**	**Repayment (monthly)**
High Cost Short term lender (HCSTL) UB	£978.39	Having already paid this company £742.23 on 17 June 2014
High Cost instalment lender (SY)		Next payment due £233
HCSTL (S)	£1,429.78	Full £1,429.78 due 15 August 2014 having already paid this company £605 and £329.78 on 16 June 2014
HC instalment lender (LS x 2)	£804 total o/s	£404 for both
HCSTL (payday)	£709.50 (£550 taken July 2014)	£709.50 due
HCSTL (W)	£840	£180.78 due 15 August 2014
Flex Credit HC	£1,737.35	£525.63
High cost loan	£3,000 (approved May 2014)	£217.41 due 29 August 2014
HCSTL P	unknown	£360.95 debited bank account 16 June 2014
HCSTL	unknown	£126.16 debited account 16 June 2014
HCSTL	unknown	£1,299.50 debited account 16 June 2014
HCSTL QQ	unknown	£598.16 debited account 13 June 2014

None of these were the ones to be consolidated into the Everyday Lending loan. The payday loans alone amounted to around £6,730 (as noted by the Everyday representative) and could have been higher than that. I can see that Mr K provided for Everyday Lending a series of statements of account from the other high cost and high cost short term lenders which led to the Everyday Lending representative coming to that figure of £6,730, but that total did not include them all.

So, although I can see that Mr K did agree to use the £6,500 from Everyday Lending to pay off those other debts, I don't think that it did enough. Firstly, I cannot see that Everyday Lending paid off the other lenders for Mr K, so it was not a confirmed situation that he would have used the Everyday Lending loan for that purpose and therefore reduced his debt load by that much. Secondly Mr K still had all the other debt listed in its schedule which amounted to £26,483 according to the schedule Everyday Lending had compiled.

Whilst I appreciate that Everyday Lending carried out checks I'd consider to have been proportionate for a loan of this amount and for 36 months, having obtained Mr K's bank statements it was clear that Mr K had been taking a series of fresh loans over the weeks leading up to Mr K's application to Everyday Lending. One example was a loan for £3,800 which credited his account on 28 July 2014 – just a few days before applying for this Everyday Lending loan. Everyday Lending appeared to know of this as it was included in the loan table it compiled and I have duplicated earlier in the decision (Lender TL).

Another two examples were credits from one of the High Cost short term companies with which he was already a customer of £400 and £1,000 on 27 June 2014. My view is that Mr K's loan history just before he applied to Everyday Lending was one which would warrant some further investigation.

I have seen on the bank account statements that the Everyday Lending representative circled a credit from another bank account – likely one belonging to Mr K and ending *9602 – and had made a note to get a copy of that account and its statements. But the information I have seen does not include any copies from that bank account. And so, it seems that Everyday Lending meant to obtain that and did not get it.

So, the consolidation Mr K had in mind may have dealt with some of his outstanding balances but still left him with the other loans to deal with. Plus, Mr K had his own regular outgoings such as rent (£850) and bills and other costs.

And although Mr K's net salary of £5,246 a month (rounded) looked to have been able to cover this, the level of indebtedness Mr K had got himself into together with the Everyday Lending loan which would remain in place for 36 months, my view is that it was too high to be considered sustainable. Mr K was spending a very large proportion of his income on his debts. And Everyday Lending knew of this before approving the loan. Which I think was the wrong thing to do.

I do not think that Everyday Lending was unfair or unreasonable in the way it dealt with Mr K in any other way.

I uphold Mr K's complaint.

Putting things right – what Everyday Lending needs to do

- refund all interest and charges Mr K paid on the loan and secondary loan; and
- 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 information about the loans from Mr K's credit file;

HM Revenue & Customs requires Everyday Lending to take off tax from this interest. It must give Mr K a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold Mr K's complaint and I direct that Everyday Lending Limited does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr K to accept or reject my decision before 19 September 2022.

Rachael Williams
Ombudsman