

The complaint

Mr K complains that Skyline Direct Limited (Skyline) gave him loans he couldn't afford to repay.

What happened

Mr K took at least 10 home collected loans between January 2015 and January 2017. I've included some of the information we've received about these loans in the table below.

loan number	loan amount	agreement date	loan repayment date	term (weeks)	weekly repayment
1	£100.00	06/01/2015	29/04/2015	20	£7.00
2	£200.00	14/04/2015	30/09/2015	30	£10.00
3	£100.00	28/04/2015	19/08/2015	30	£7.00
4	£200.00	29/09/2015	23/03/2016	30	£10.00
5	£200.00	13/10/2015	08/06/2015	30	£10.00
6	£200.00	22/03/2016	10/08/2016	30	£10.00
7	£200.00	21/06/2016	30/11/2016	30	£10.00
8	£300.00	09/06/2016	01/02/2017	30	£15.00
9	£200.00	29/11/2016	written off	30	£10.00
10	£300.00	31/01/2017	written off	30	£15.00

Mr K had some problems repaying his final two loans and the balances of these loans were written off as a result of Mr K entering into a Debt Relief Order (DRO). Skyline was notified about the order in May 2017.

The weekly repayment column is the cost per week per loan. So, where loans ran at the same time the cost will be greater. For example, when loans 2 – 4 were running at the same time Mr K's commitment was £27 per week to Skyline.

Following Mr K's complaint, Skyline issued its final response letter. Skyline concluded that it carried out proportionate checks before advancing these loans to Mr K, and based on the information it gathered from Mr K it was reasonable to lend.

However, it did accept that as the final two loans formed part of a DRO than this likely indicated Mr K was having financial difficulties. Skyline offered to refund what Mr K had paid towards these loans but as Mr K hadn't repaid enough to cover the principal which was written off then the balance was reduced to £374.09. But as these loans were part of a DRO Skyline wasn't requesting this balance be paid.

Unhappy with this response, Mr K referred the complaint to the Financial Ombudsman Service.

One of our adjudicators considered Mr K's complaint. She explained that she wasn't going to consider loans 9 and 10 because Skyline had already made an offer to settle these loans. She also didn't think it was wrong of Skyline to have advanced loan 1 to Mr K.

However, the adjudicator thought the repayment for loans 1 and 2 together represented a too high proportion of Mr K's declared income and she thought there was a significant risk that Mr K wouldn't be able to meet his commitments without borrowing again.

By loan 6, the adjudicator concluded that the lending was now harmful for Mr K, so this, and any future loans shouldn't have been provided.

Mr K responded to the adjudicator's assessment to explain that he'd taken more than the loans listed in the loan table. He said he'd been borrowing from Skyline since 1985.

Skyline said it agreed with the adjudicator's assessment in relation to loans 7 and 8 (in addition to maintaining its position on loans 9 and 10). But it disagreed with the outcome for loans 1 – 6. In summary Skyline said:

- The industry regulator – the Financial Conduct Authority (FCA) amended the regulations in November 2018 and Skyline says that the adjudicator applied the regulations retrospectively.
- There is also no specific list of checks that a lender must carry out prior to lending (either before or after the change in rules in November 2018).
- The amount Mr K borrowed was low and he had enough disposable income to afford the repayments he was committed to making.
- While loans one and two overlapped, this was only for a period of two weeks.
- Skyline also disagreed that further checks needed to be completed before loan 6 was approved it says Home Credit is used for a range of reasons including to support a customer's lifestyle.
- Mr K hasn't provided any evidence to support his complaint.

As no agreement has been reached, the case was passed to me to resolve. I issued my first provisional decision explaining why I was still intending to uphold Mr K's complaint but for different reasons than the adjudicator gave. I was only intending to uphold the complaint about loans 6 – 10.

In response to the first provisional decision Mr K provided some further information about the household finances at the time, having considered what Mr K said in light of his lending history I concluded I needed to issue a second provisional decision.

I then proceeded to issue a second provisional decision in July 2022 outlining why I considered a fair and reasonable outcome was to uphold Mr K's complaint about loans 3 – 10.

A copy of my provisional findings (from both decisions) follows this in italics and in smaller font and these form part of this final decision.

What I said in my first provisional decision

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 short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Mr K says that he has been borrowing from Skyline for a considerable period of time, from potentially as far back as 1985. Mr K has provided some testimony around being a regular user of these loans as well as renting several household items such as televisions.

The Financial Ombudsman approached Skyline to see whether it had any further information about Mr K's loan before January 2015. Skyline has told the Financial Ombudsman that it only holds records of lending that occurred within the last six years.

So, it doesn't have any further information about any loans that may or may not have been taken out prior to the 10 in the table at the start of this decision.

Mr K also hasn't been able to provide any further information about loans taken from Skyline before the first loan in the table above. Therefore, in the absence of any further information I'll only be considering the loans in the table at the start of the decision.

Mr K appears to agree with our adjudicator's findings although he did add that he thought he'd taken more than 10 loans. So, I don't think Mr K is unhappy about the outcome in relation to loan one, and for the avoidance of doubt I agree with the adjudicator that loan one shouldn't be upheld. But I have kept the loan in mind when thinking about the overall lending relationship between Skyline and Mr K.

Skyline has also accepted that something went wrong when loans 7 – 10 were granted, and it offered to put things right for Mr K in line with the adjudicator's recommendations.

Therefore, these loans are no longer in dispute, but for completeness I've included what Skyline needs to do to put things right in the 'putting things right' section at the end of the decision.

Instead, this decision will focus on whether Skyline did anything wrong when it granted loans 2 - 6.

Skyline has said, in response to the adjudicator's assessment that the Financial Ombudsman Service has retrospectively applied the affordability rules from November 2018. I think this may be a misreading of the rules, as while the regulations did change in November 2018, they weren't in my view significant enough to alter Skyline's obligation to carry out a proportionate check. However, for completeness I've outlined below the regulations at the time all of Mr K's loans were granted.

Regulation by the Financial Conduct Authority (from 1 April 2014)

Skyline gave Mr K all of the above loans after the regulation of Consumer Credit Licensees had transferred from the OFT to the FCA on 1 April 2014.

The FCA's Principles for Business set out the overarching requirements which all authorised Firms are required to comply with. The Principles themselves are set out in PRIN 2.1.1R. And the most relevant overarching principle here is PRIN 2.1.1 R (6) which says:

A firm must pay due regard to the interests of its customers and treat them fairly.

The FCA's Consumer Credit sourcebook (CONC) is the specialist sourcebook for credit related regulated activities. It sets out the rules and guidance specific to consumer credit providers, such as Skyline. CONC 5 sets out a firm's obligations in relation to responsible lending. And CONC 6 sets out a firm's obligations after a consumer has entered into a regulated agreement.

The starting point for the relevant rules in this case is Section 5.2.1R(2) of CONC which sets out what a lender needs to do before agreeing to give a consumer credit of this type. It says a firm must consider:

- (a) the potential for the commitments under the regulated credit agreement to adversely impact the customer's financial situation, taking into account the information of which the firm is aware at the time the regulated credit agreement is to be made; and*

- (b) *the ability of the customer to make repayments as they fall due over the life of the regulated credit agreement, or for such an agreement which is an open-end agreement, to make repayments within a reasonable period.*

CONC also includes guidance about 'proportionality of assessments'. CONC 5.2.4G(2) says:

A firm should consider what is appropriate in any particular circumstances dependent on, for example, the type and amount of credit being sought and the potential risks to the customer. The risk of credit not being sustainable directly relates to the amount of credit granted and the total charge for credit relative to the customer's financial situation.

CONC 5.3 contains further guidance on what a lender should bear in mind when thinking about affordability. And CONC 5.3.1G(1) says:

In making the creditworthiness assessment or the assessment required by CONC 5.2.2R(1), a firm should take into account more than assessing the customer's ability to repay the credit.

CONC 5.3.1G(2) then says:

The creditworthiness assessment and the assessment required by CONC 5.2.2R (1) should include the firm taking reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.

In respect of the need to double-check information disclosed by applicants, CONC 5.3.1G(4) states:

- (b) *it is not generally sufficient for a firm to rely solely for its assessment of the customer's income and expenditure on a statement of those matters made by the customer.*

And CONC 5.3.7R says that:

A firm must not accept an application for credit under a regulated credit agreement where the firm knows or ought reasonably to suspect that the customer has not been truthful in completing the application in relation to information supplied by the customer relevant to the creditworthiness assessment or the assessment required by CONC 5.2.2R (1).

Thinking about the regulations I've quoted above, Skyline had to assess the lending to check if Mr K could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Skyline's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr K's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Skyline should have done more to establish that any lending was sustainable for Mr K. These factors include:

- *Mr K having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);*
- *Mr K having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);*
- *Mr K coming back for loans shortly after previous borrowing had been repaid*

(also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr K.

Skyline was required to establish whether Mr K could sustainably repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr K was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr K's complaint.

Loan 2

As the adjudicator has pointed out, Mr K's first loan was still running when loan two was approved. While Mr K was committed to paying Skyline £10 per week for this loan, with the outstanding payment due for loan one, Mr K's total weekly commitment to Skyline was £17.

In the adjudicator's view, a weekly income of around £132 was too small to support weekly repayments of £17 when there was around £55 per week in living costs. So, in her view, the weekly repayments were unsustainable for Mr K.

I appreciate that Skyline says while these loans did overlap it was only for a two-week period. But when Skyline approved Mr K's second loan it didn't know that Mr K would repay his first loan earlier than planned. But in this case, regardless of how long loan one was due to run for or did run for after loan two was granted, there was a period of time that Mr K was expected to pay Skyline £17 per week for both of these loans.

I would say at this point, Skyline hasn't provided evidence of the information Mr K provided about his income, for example what it was made up of but the final response letter does suggest that Mr K's income is mainly made up of benefit payments.

In addition, it also hasn't provided us with a breakdown of Mr K's expenditure – Skyline has just put together a spreadsheet of his declared income and his declared expenditure. So, for example, it's not clear whether the declared expenditure for each loan includes Mr K's commitments that he had for other loans running at the same time and / or what his other weekly living costs included.

Notwithstanding the above, I disagree that this loan should be upheld solely because a significant portion of Mr K's income was going towards repaying Skyline. I say this because the amount Mr K was borrowing was still quite low, and although his income could be described as modest there wasn't at this point any evidence of repayment problems.

It of course possible, that there will become a point where the amount of money a consumer has to pay a lender each week will become unsustainable and this point will be different for each consumer because it will depend on their individual circumstances.

But I do think, this point hadn't yet been reached in this case, even though, Mr K was committing to spend around 18% of his declared weekly income to Skyline, which is not an insignificant amount and in some cases maybe sufficient to have led me to conclude the loan (and all future loans) should be upheld.

However, as this was the early stages of Mr K's lending relationship with Skyline, I think the

checks it carried out were proportionate and showed it that Mr K would be in a position to afford these repayments.

Therefore, I'm intending to not uphold this loan.

Loan 3

The adjudicator thought this loan should be upheld for the same reasons as loan two. Loan three was taken out on the same day loan one was repaid and Mr K borrowed the same amount as he had done for loan one.

This has the effect of not decreasing either his total indebtedness to Skyline or his weekly commitment, he was still required to pay it a total of £17 a week. I've thought very carefully about this loan, but for the same reasons as I outlined for loan two I still think it was just about reasonable for Skyline to have relied on the information Mr K provided which showed Skyline he could afford the loan repayments he was committed to making.

So, like loan two, I'm also intending to not uphold this loan.

Loans 4 and 5

When loan 4 was approved, loans two and three were still running so Mr K's commitment had now increased to £27 per week. Skyline also says, that following making enquires with Mr K, it discovered that he had around £114 per week in disposable income to be able to afford the weekly repayments.

This disposable income was significantly larger, than Skyline had recorded for loans 1 - 3. There could be a perfectly reasonable explanation for this, but Skyline hasn't provided one and as Skyline hasn't provided a breakdown of the income and expenditure I can't see where the differences are.

I think this, along with now having three loans running at the same time, ought to have prompted Skyline to have carried out further checks before this loan was granted.

For loan five, Mr K only had one other loan running at the same time – loan four with weekly commitments of £20. While this was less than what Mr K had to pay when loans 2 – 4 were running, it was still roughly what Mr K had been committed to repaying Skyline throughout the lending relationship.

And Mr K was retuning for a new loan, not that long after loans two and three had been repaid, Mr K had been indebted to Skyline for 10 months and was further extended his indebtedness. Again, and like loan four, I do think further checks needed to be carried out. So, while I'm not upholding these loans for the reasons given by the adjudicator, that still doesn't mean I think Skyline did all it needed to do.

Overall, I don't think it was reasonable for Skyline to have relied on what Mr K declared to it about his income and expenditure for these loans. Even though this information suggested Mr K had sufficient disposable income to be able to afford the repayments he was committed to making.

I don't think for these loans Skyline carried out a proportionate check. Mr K had been continuously indebted to Skyline prior to this loan, and he was returning for further credit, extending his indebtedness for at least another 30 weeks.

Instead, I think it needed to gain a full understanding of Mr K's actual financial position to ensure loans four and five were affordable. This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements and/or Mr K's credit report. This might've helped verify the information provided and revealed whether there was any other information that Skyline might've needed to consider about Mr K's general financial position.

However, that isn't the end of the matter. For me to be able to uphold these loans, I have to be satisfied that had Skyline carried out a proportionate check it would've likely discovered that Mr K couldn't afford these loans.

Mr K hasn't provided the Financial Ombudsman with a copy of his bank statements or his full credit report. So, I don't know and can't say what Skyline may have seen had it carried out what I consider to be a proportionate check. This means, as it stands, I'm also not intending to uphold Mr K's complaint about these loans.

Looking at everything together though, I've not seen quite enough evidence to suggest Skyline shouldn't have lent loans four and five. Even considering what Mr K declared to Skyline for his income and expenditure, these loans appeared affordable.

As this is the case, I'm intending to not uphold Mr K's complaint about these loans.

Loan 6

The loan being pounds and pence affordable is only part of the consideration. So, I haven't felt the need to recreate individual, proportionate affordability checks for this loan because I didn't consider it necessary to do so. Although, I accept, based on what Skyline provided this loan would've looked affordable to it.

So, in addition to assessing the circumstances behind each individual loan provided to Mr K, Skyline also needed to consider the overall pattern of lending and what unfolded during the course of its lending relationship with Mr K.

Having looked at the overall pattern of Skyline's lending history with Mr K, I agree with our adjudicator that at this point in time, Skyline should reasonably have seen that further lending was unsustainable, or otherwise harmful, at the time it provided loan 6. I say this because;

- At this point Skyline ought to have realised Mr K was not managing to repay his loans sustainably. Mr K had taken out six loans in around 14 months and he had been indebted to Skyline for the entire time. So, Skyline ought to have realised it was more likely than not Mr K was having to borrow further to cover an ongoing need and that Mr K's indebtedness was increasing unsustainably and his underlying financial situation didn't seem to be improving.*
- By loan 6, Mr K's weekly repayments were nearly three times the size compared to loan one. He started paying £7 per week but was now committed to paying £20 per week. So, Mr K's weekly repayments weren't decreasing which suggests that the loans weren't sustainable for him and his borrowing hadn't decreased over the lending relationship.*
- Loan 6 was also one of Mr K's largest loans to date, a further sign that his indebtedness was increasing rather than decreasing.*
- Mr K took normally was advanced new loans on the same day as previous loans were repaid or shortly afterwards and he continued to have at least two loans running at the same time. Skyline ought to have realised it was more likely than not Mr K, on these occasions, was having to borrow further to effectively cover a long-term financial need. To me, this is indicative of his indebtedness not being sustainable.*

I think that Mr K has lost out because Skyline provided him with loan six because:

- these loans had the effect of unfairly prolonging Mr K's indebtedness by allowing him to take expensive credit over an extended period of time.*
- the number of loans and the length of time over which Mr K borrowed was likely to have had negative implications on his ability to access mainstream credit and so kept her in the market for these high-cost loans.*

Skyline has already accepted something went wrong when loans 7 – 10 were granted. So, overall I'm intending to uphold the complaint about loans 6 - 10.

What I said in the second provisional decision

Firstly, no further comments were provided by Skyline in response to the provisional decision and Mr K didn't disagree with the findings I reached about loans 6 – 10. Mr K's concerns were about the wider financial position at the time of loans 1 – 5 being granted.

Therefore, I don't think there is any ongoing dispute about loans 6 – 10 and I'm intending to uphold those loans because they were harmful for Mr K for the same reasons as I explained in the first provisional decision. My reasoning for doing so can be found above.

In response to the provisional decision Mr K confirmed he thought the outcome initially reached by the adjudicator was fair and reasonable. Therefore, as the adjudicator didn't uphold loan one, I'm also not intending to revisit that loan either. Instead, this decision will focus on whether it was reasonable for Skyline to have advanced loans 2 – 5.

Loan 2

When loan 2 was advanced Mr K was still making repayments towards loan 1. So, although his repayment for loan 2 was £10 per week his actual weekly commitment was £17 per week. In my view, Skyline had to consider an affordability check to satisfy itself that Mr K would be in a position to make his repayments.

Based on summary of information Skyline provided the Financial Ombudsman Service it believed that Mr K had sufficient disposable weekly income to be able to afford the repayments.

Following the first provisional decision Skyline has provided copies of the original application form that was completed at the time the loan was provided. The figures provided in the application form confirms the details that the summary spreadsheet disclosed and what was previously provided.

In addition, the application form is noted to confirm that Mrs K also contributed to the household living costs – which, to me, does imply that she did or does have her own independent form of income.

However, in response to the provisional decision, Mr K disclosed that his wife was also borrowing at the same time as himself and that he was claiming benefits for himself and his wife.

This is key information, because Mr K claiming benefits for his wife, means that in effective there is only one pot of money available to cover all living costs and credit commitments for both Mr and Mrs K.

If Mrs K was repaying a loan at the same time, then the disposable income would have to take that into account. The letter sent to the Financial Ombudsman Service - providing details of the joint claim for benefits is a few years after these loans were granted, but I've not seen anything to make me think that Mr K wasn't claiming benefits for Mrs K at the time.

There is only limited information about Mrs K's loan history with Skyline that the Financial Ombudsman Service was provided as part of her previous complaint. I can see that at the point Mr K applied for his second loan Mrs K had recently taken a loan from Skyline at the end of March 2015 and she also had a further loan outstanding. Overall, her weekly commitment for these two loans came to around £35.

As part of her complaint, Mrs K also provided information about her income at the time, and I've seen a benefit award letter which confirms that Mr K was claiming benefit for Mrs K. This to me suggests supports that there was one pot of money in which Mr and Mrs K needed to repay not only Skyline but also cover all of their living costs such as food and utilities.

So, at the point, that Mr K's second loan was approved he needed to pay £17 per week to

Skyline but it is also reasonable to consider Mrs K's payment of £35 per week to Skyline. So as a household by the point of loan 2, there were four loans outstanding with a weekly commitment of £52.

I also consider it reasonable, that Skyline ought to have known about the lending to Mrs K as the agent visited Mr K's house so it's likely that it was the same agent that provided loans to both Mr and Mrs K.

But this was just the second loan and based on the income and expenditure information Skyline had gathered along with the payment for Mrs K's loan I still think it was just about reasonable for this loan to have been granted because Skyline carried out a proportionate check which suggested the loan was affordable. So, like, my first provisional decision I'll still intending to not uphold Mr K's complaint about loan 2.

Loan 3 - 5

This loan was taken out the day that loan 1 was settled and Mr K was still committed to spending £17 per week to Skyline. However, for this loan, Mr K's income appears to have significantly dropped, and based on what he declared to the agent (and what is recorded on the application form) Mr K had around £21 of disposable income each week.

It is worth noting here, that even though this application form was only completed two weeks after loan 2, this time Mrs K wasn't listed on the application as contributing towards the household bills.

However, Mrs K's loans were still outstanding, and as I've said, there was only one pot of money to cover all bills and loan repayments and it is likely the agent would've been aware of this. Taking into account Mrs K's loan repayment then Mr K didn't actually have any disposable income left over in order to cover his loan repayments and his living costs.

In addition, taking into account the declared income – and what Skyline used to assess affordability – the household commitment to Skyline was £52 per week, which in my view now constituted a significant portion of the income Mr K received for the whole household. In these circumstances, there was a significant risk Mr K wouldn't have been able to meet the household credit commitments without having to borrow again. So, I think it's unlikely Mr K would've been able to sustainably meet his repayments for this and any subsequent loans.

I'm therefore intending to uphold loan 3, as well as loans 4 and 5 for the same reasons. Especially in light of the fact that Mr K continued to take new loans quickly after previous loans had been repaid and Mrs K continued to borrow, and by the time of loan 5 was granted as a household there were four outstanding loans that needed to be repaid out of one pot of funds.

I also accept that for loans 4 and 5 – and onwards Mr K's income seems to have significantly increased. But it isn't clear how this happened. Given throughout the entire time Mr K was borrowing from Skyline he was on benefits and claiming for his wife. And I know, that by April 2021, the benefit calculation shows that Mr K (and Mrs K's income) was about £160 per week.

As I've said before, I've seen nothing to make me think that their income wasn't about this at the time – which seems to be supported by the fact that Skyline recorded Mr K's income as benefits on the application forms at the point these loans were granted.

Skyline says the affordability calculations included, a buffer, but I can't see based on the figures that were provided what they were or how they were applied. For example, the application form for loan 3 shows disposable income of £91 per month, and this is what was reflected in the summary spreadsheet Skyline provided. So, it isn't clear how any sort of buffer was applied.

Response to the second provisional decision

The second provisional decision was emailed to both parties on 8 July 2022. Both Mr K and Skyline were asked to provide any further comment, information or evidence for consideration as soon as possible, but no later than 22 July 2022.

Mr K didn't provide any new comments or evidence for the Financial Ombudsman to consider.

Skyline responded to the provisional decision with the following comments.

- Copies of the applications for the loans were provided in May 2022 – which gave details of Mr K's income and expenditure.
- In the provisional decision it was stated when loan 4 was approved both loans 2 and 3 were outstanding. When, in fact only three remained outstanding.
- Skyline accepted the findings in relation to loans 6 – 10.

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.

Mr K didn't provide any further comments or evidence for my consideration in response to the second provisional decision.

It may help to clarify the redress. The most recent decision, was a second provisional decision. In the first provisional decision I recommended Skyline pay redress towards loans 6 – 10 – which in response to the second decision it has agreed to pay redress on.

However, as further information was provided by Mr K in response to the first provisional decision, I concluded that further loans should be upheld. Therefore, I issued the second provisional decision explaining why more loans needed to be upheld, and this is why the proposed redress in the second provisional decision directed Skyline to pay compensation in relation to loans 3 – 10.

I also accept Skyline provided copies of the application forms in May 2022 and these are referenced in the findings in the second provisional decision. So, I'm satisfied that I've considered all the information.

I've thought about what Skyline says about loan 3, that at the time of loan 4 being granted only loan 3 was outstanding – and not loan 2. However, there has been contradictory information provided to the Financial Ombudsman Service about this.

In the final response letter issued by Skyline, the start month for loan 4 is shown as September 2015 – which would indicate that loan 3 been repaid as this was repaid in August 2015.

However, the summary of the lending provided to us as part of Skyline's initial file submission shows that loan 4 was granted in June 2015, and therefore loans 2 and 3 would've been running concurrently. It was this document that I had used when constructing the lending table.

Having looked at the application forms which have been provided by Skyline, this was completed (for loan 4) in September 2015. So, I've amended the loan table at the start of this decision to reflect this.

Therefore, when loan 4 was granted, loan 3 had been repaid in August 2015 and loan 2 was still running – although was repaid the day after loan 4 was advanced. So, when loan 4 was granted Mr K's total weekly commitment to Skyline was £20.

I've thought about this in relation to the reasons I gave in the second provisional decision but I still think loan 4 should be upheld, because Mr K would've had two loans outstanding and at the time and Mrs K still owed Skyline money.

In addition, for the reasons I've given in the second provisional decision there was, in effect one pot of money in which to service all the repayments to Skyline as well as cover the household living costs.

Overall, the comments Skyline have provided in response to the second provisional decision haven't led me to change my mind about the outcome that I'm intending to reach.

I still think Skyline shouldn't have approved Mr K with his lending from and including loan 3, and I've outlined below what it needs to in order to put things right for Mr K.

Putting things right

In deciding what redress Skyline should fairly pay in this case I've thought about what might have happened had it not lent from loan three, as I'm satisfied it ought to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr K may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular lender which they may not have had with others. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr K in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr K would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Skyline's liability in this case for what I'm satisfied it has done wrong and should put right.

Skyline shouldn't have given Mr K loans 3 – 10.

A. Skyline should add together the total of the repayments made by Mr K towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Skyline have already refunded.

B. Skyline should calculate 8% simple interest* on the individual payments made by Mr K which were considered as part of "A", calculated from the date Mr K originally made the payments, to the date the complaint is settled.

C. Skyline should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr K as though they had been repayments of the principal on the outstanding loans. If this results in Mr K having made overpayments then Skyline should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Skyline should then refund the amounts calculated in “A” and “B” and move to step “E”.

D. If there is still an outstanding balance, then the amounts calculated in “A” and “B” should be used to repay any balance remaining on outstanding loans and any principal Skyline has already written-off. If this results in a surplus, then this should be paid to Mr K. However, if there is still an outstanding balance Skyline shouldn't pursue outstanding balances made up of principal Skyline have already written-off because the outstanding balance for loans 9 and 10 were subject to a DRO.

E. Skyline should remove any adverse information recorded about loans 3 – 5 from Mr K's credit file. The overall pattern of Mr K's borrowing for loans 6 -10 means any information recorded about them is adverse, so Skyline should remove these loans entirely from Mr K's credit file. Skyline does not have to remove loans 9 and 10 from Mr K's credit file until the loans have been repaid, but Skyline should still remove any adverse information recorded about them.

Mr K had a DRO granted and completed, this means the balance of loans 9 and 10 were written off by Skyline. But given, I'm upholding further loans I think it's entirely fair and reasonable for Skyline to recover any outstanding principal that it wrote off on the loans that formed part of Mr K's DRO. But should an outstanding balance still remain, Skyline isn't entitled to collect any further payments from Mr K.

*HM Revenue & Customs requires Skyline to deduct tax from this interest. Skyline should give Mr K a certificate showing how much tax it has deducted, if he asks for one.

My final decision

For the reasons I've explained above and in the two provisional decisions, I'm upholding Mr K's complaint in part.

Skyline Direct Limited should put things right for Mr K as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 26 August 2022.

Robert Walker
Ombudsman