DRN-3747410

The complaint

Ms M complains through her representative that Progressive Money Limited (PML) irresponsibly lent her money that she couldn't afford to repay.

What happened

PML provided Ms M with a loan of £6,000 on 7 June 2017, repayable over 60 months at the rate of £266.25 a month. The purpose of the loan was to buy a boat. She first went into arrears with the payments in December 2019. She then suffered ill health and was given a payment deferral from April to August 2020. She then advised PML that she wasn't able to work due to ill health. PML has confirmed that apart from the contractual rate of interest no additional fees or interest have been added to the loan. So far as I know there is still an outstanding balance.

Ms M complained through her representative of irresponsible lending. PML said it carried out all necessary verification checks, including checking Ms M's credit report, verifying her income, and considering her most recent bank statement. The loan was assessed as affordable and sustainable.

On referral to the Financial Ombudsman our adjudicator noted that the results of Ms M's credit check showed she had missed payments on multiple accounts and two of her credit cards were over their limits. Also as Ms M's total monthly credit repayments represented a significant proportion of her income there was a significant risk that Ms M wouldn't have been able to meet her existing commitments without having to borrow again. So, she thought it unlikely that Ms M would've been able to sustainably meet her repayments for this loan.

PML disagreed, pointing out that Ms M had given it reasonable explanations for her defaults, and that she had a reasonable disposable income left after accounting for her credit commitments, living expenses and the new loan repayments. It further disagreed that her monthly credit repayments represented a significant proportion of her income.

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 PML complete reasonable and proportionate checks to satisfy itself that Ms M would be able to repay the loan in a sustainable way?

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

The rules and regulations in place required PML to carry out a reasonable and proportionate assessment of Ms M'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 PML had to think about whether repaying the loan would be sustainable. In practice this meant that PML had to ensure that making the repayments on the loan wouldn't cause Ms M 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 PML to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Ms 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 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).

Here Ms M was borrowing a substantial sum over a long period. She had a basic income of £969 a month, topped up with child tax credits and child benefit to about £1,400. So I think PML should have carried out a thorough assessment of Ms M's financial circumstances before providing the loan.

That said I think that PML carried out proportionate checks. And I don't disagree with its assessment of her credit commitments, which together with the new loan repayments amounted to £489.75 a month, around 35% of her monthly income including tax credits. I think that is high, any amount over 25% could be cause for further investigation and an indication that the loan was unaffordable.

Ms M had seven active defaults on her credit file. She was paying nominal amounts towards those defaults, of £5 or £2 a month. Whilst PML may have accepted that the defaults arose because of past ill health and they were still outstanding, if Ms M couldn't pay anything more than the nominal payments it's difficult to see how she would have been able to make the payments on this loan, which didn't include any consolidation of her existing credit. She was also exceeding her credit limit on two of her credit cards. So while I appreciate that these loans are provided to people with a poor credit record, Ms M was nevertheless seeking to buy a boat with a high interest loan.

PML assessed that Ms M would have a disposable income of £180 a month after accounting for the new loan repayments. I note it reviewed her bank statement. Whilst this didn't show Ms M to be overdrawn at any time, it also didn't show that she had any spare money at the end of the month. All the payments from her account were living expenses or debt payments. And whilst I note her husband was contributing to the household, this was a loan in her sole name as were all the debts on her credit report.

In any event it's not just the pounds and pence affordability we look at. I think there were sufficient indicators here to show the loan was unsustainable. So I don't think that PML made a fair lending decision.

Putting things right

Ms M 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 PML should refund all interest and charges as follows:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Ms M as payments towards the capital amount.
- If Ms M 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, PML should come to a reasonable repayment plan with Ms M
- Remove any adverse information about the loan from Ms M's credit file.

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

My final decision

I uphold the complaint and require Progressive Money Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 9 November 2022.
Ray Lawley
Ombudsman