DRN-3758610

The complaint

Mrs J complains through her representative that Everyday Lending Limited irresponsibly provided her with a high cost loan that she couldn't afford to repay.

What happened

Everyday provided Mrs J with a loan of £2,000 on 22 March 2017, repayable over 24 months at the monthly rate of around £180. She struggled to pay the instalments and by arrangement made smaller payments towards the balance. She paid off the balance of the loan in March 2020 by taking out a loan through another provider. She complained through her representative to Everyday about irresponsible lending.

Everyday said it carried out necessary verification checks. These included obtaining and reviewing Mrs J's credit record, reviewing one month's payslip and the most recent two months' statements for Mrs J's bank account. It used ONS (Office for National Statistics) data to assess her outgoings. It assessed that the loan was affordable.

On referral to the Financial Ombudsman Service, our adjudicator said that, based on the checks it carried out she hadn't seen anything which suggested Everyday would've concluded that Mrs J wouldn't have been able to sustainably make the repayments needed for the loan.

Mrs J disagreed and asked for an Ombudsman's decision.

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 Mrs J would be able to repay the loan in a sustainable way?

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

The rules and regulations in place required Everyday to carry out a reasonable and proportionate assessment of Mrs J'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 loans would be sustainable. In practice this meant that Everyday had to ensure that making the repayments on the loan wouldn't cause Mrs J 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 Mrs J. 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).

According to the credit report Everyday obtained at the time of the application, Mrs J had one loan for which she was paying £159 a month, two credit cards with balances on them totalling just over £1,000 and two mail order accounts with balances totalling around £2,400. Estimating that she would need to pay 5% of those balances she would have been paying around £333 a month on her existing credit commitments. None of those accounts were to be paid off by the new loan, so the instalment would be added to those commitments. Her income was verified at £1,931 a month, so she would have been spending about 26.5% of that on credit commitments. This was a little high so it depended on what her disposable income would have been.

Using ONS data Everyday assessed Mrs J's outgoings at about £676. She had a small overdraft, but I think looking at the bank statements that this was a reasonable assessment to make. I estimate that she would have had a disposable income, after paying the new loan instalment, of around £233. This was tight but I think it was affordable.

Mrs J's representative said in the complaint to Everyday that Mrs J had three accounts that were defaulted, one quite recently. Having looked at the credit report obtained by Everyday, I can't see any accounts marked as being in default. One of the accounts mentioned had a £0 balance on it so I wouldn't expect that to be taken into account in any event. Credit reports might not show very recent records but if Mrs H was aware of this she should have told Everyday when making her application.

I think Everyday carried out proportionate checks and that those checks wouldn't have alerted it to carry out any further assessment. I'm sorry that Mrs J got into more difficulties after the loan was issued, but based on Everyday's assessment at the time, I think it was reasonable for it to assess that the loan was affordable. So, I think it made a fair lending decision.

My final decision

I don’t uphold the complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs J to accept or reject my decision before 19 December 2022.

Ray Lawley
Ombudsman