

The complaint

Mr K says Salary Finance Loans Limited, trading as Salary Finance, irresponsibly lent to him.

What happened

Mr K took out a loan from Salary Finance on 19 July 2018 for £5,500 over 36 months. The monthly repayment was £199.63 and the total repayable was £7,186.69. The APR was 19.9%. There is an outstanding balance.

Mr K says his financial situation was dire at the time, he was using payday loans and doesn't feel relevant checks were done. This loan got him into more debt. He wants to only repay the capital he borrowed; some compensation for the strain and worry; and for all negative information to be removed from his credit file.

Our adjudicator didn't uphold Mr K's complaint. He thought Salary Finance ought to have completed better checks but didn't think had it done so it ought to have made a different lending decision.

Mr K disagreed with this assessment and asked for an ombudsman's review. He said he was reliant on payday loans, and to make the repayments on this loan he had to take out other loans.

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.

Our approach to complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, are set out on our website and I've followed it here.

Salary Finance needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means that it should've carried out reasonable and proportionate checks to make sure Mr K could afford to repay what he was being lent in a sustainable manner.

These checks could take into account a number of different things, such as how much was being lent, the length of the agreement, the frequency and amount of repayments, the total amount repayable and what Salary Finance knew about Mr K at the time he applied for the loan.

I can see that Salary Finance obtained information about Mr K's annual net income (£27,509) and checked this with his employer. It asked about his housing costs – he was paying no rent as he lived with his parents. It completed a credit check to understand his credit history and his existing commitments. Salary Finance used this information to calculate Mr K's disposable income and make an assessment of whether the loan was affordable. It decided it was fair to lend to Mr K.

I'm not persuaded these checks were proportionate given the loan value and the fact there was evidence of some payday lending on Mr K's credit report. I think Salary Finance should have carried out a fuller financial review. So I have looked at Mr K's bank statements from the months prior to his loan application. I am not saying Salary Finance had to do this, but it is one way for me to recreate what better checks would most likely have shown.

Having done so I don't think Salary Finance ought to have made a different lending decision had it completed better checks. Mr K says he was using payday loans and I can see evidence of this from one such lender, but I don't think it was to the extent Salary Finance should have concluded he was in harmful cycle of borrowing to repay. His statements show after his committed living and credit cost he had enough disposable income to afford this loan. And the lender's credit check showed he was not over indebted (£5,299) and had no defaults or public records. He was generally managing his existing credit well. Mr K also supplied a copy his full credit file and whilst this shows his financial stability deteriorated in later years, it doesn't show that there were signs that this loan might not be sustainably affordable at the time he applied.

Mr K has confirmed the loan was for debt consolidation. I can't see that Salary Finance asked about the purpose of the loan and knew this. It ought to have done this as part of its checks. I can see from Mr K's statements he used the loan in part to clear some of his debts that would most likely have had higher interest rates. So it seems had Salary Finance done better checks, and asked about the purpose of the loan, it would fairly have concluded as Mr K planned to repay higher-cost debts it would not be financially harmful for it to lend to him.

Overall, I don't think Salary Finance was wrong to lend to Mr K. I note there remains an outstanding balance on the loan. I would remind Salary Finance of its obligation to treat Mr K fairly, and with forbearance - if appropriate depending on his current circumstances.

My final decision

I am not upholding Mr K's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 30 December 2022.

Rebecca Connelley
Ombudsman