

The complaint

Mr E complains that Everyday Lending Limited, trading as Everyday Loans, lent to him irresponsibly and without carrying out proper affordability checks. He would like all the fees and charges associated with the loan refunded.

What happened

In July 2018 Everyday Loans approved a loan of £2,500 for Mr E, which was scheduled to be repaid at approximately £155 per month over a term of 24 months. The purpose of the loan was for home improvements. When assessing the application, it would seem Everyday Loans asked Mr E about his financial circumstances and carried out a credit check before approving the lending.

In August 2019 Everyday Loans approved a second loan for Mr E, which repaid loan one and gave him some extra money for a holiday.

Mr E complained to Everyday Loans that the borrowing was not affordable for him. Everyday Loans rejected his complaint, and so he brought his case to this service. The adjudicator thought that there were clear signs that the loans were unaffordable for Mr E, and so upheld the complaint. Whilst not accepting full liability, Everyday Loans agreed to follow the adjudicator's redress instructions for loan two, but didn't agree that it shouldn't have given him loan one. It defended its actions, highlighting that Mr E had a reasonable disposable income at the time, and that it had not in fact seen some of the key evidence mentioned by the adjudicator. It asked an Ombudsman to review the case.

As Everyday Loans has agreed to carry out the redress instructions for loan two, this decision will not address that lending. I will only be considering whether it was right to have granted loan one in July 2018.

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.

Having done so, I'm going to uphold this complaint and I'll explain why. I'll say from the start that I am reaching some slightly different conclusions from the adjudicator. But as they ultimately have no bearing on the outcome of the case, I see no necessity for a provisional decision.

Everyday Loans is aware of its obligations under the rules and regulations in place at the time of this lending decision, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mr E would be able to repay the borrowing applied for in a sustainable way. As set out in CONC 5.3.1G(2) that means that he could manage the repayments,

"...without...incurring financial difficulties or experiencing significant adverse consequences"

Essentially, Mr E needed to be able to meet his financial commitments and not have to borrow elsewhere to repay Everyday Loans for the loan to be considered affordable and sustainable.

Did Everyday Loans carry out proportionate checks before granting this loan?

Prior to the adjudicator's view on this case, it appeared that Everyday Loans asked Mr E some questions about his income and expenditure (I&E); reviewed copies of many bank statements; and carried out a credit check when considering his loan application. The adjudicator concluded that the checks went far enough.

However, in response to the view Everyday Loans said that it did not view any bank statements before approving loan one. I can only assume that the bank statements relevant to the time period in question and provided in Everyday Loans' file to us were gathered by it when considering Mr E's application for loan two. So it in fact only asked him some questions as part of an I&E assessment and carried out a credit check for loan one.

Given what the credit check revealed in terms of recent and repeated poor payment history on at least one account, and a credit card at its limit, I think it would have been proportionate for Everyday Loans to request some additional evidence from Mr E in order to satisfy itself that the borrowing was indeed affordable and sustainable for him. There were flags that further checks were warranted, but they weren't carried out.

What would Everyday Loans have found had it done proportionate checks?

When considering this second question, our service has had the benefit of several months of bank statements to review. I accept that there was and is no requirement on a lender to obtain any particular type of information: they are permitted to source and rely on a range of evidence when assessing affordability, and so Everyday Loans could have opted to gather more information about Mr E's financial position in a range of ways. However, it didn't, and, in the absence of anything else provided, I'm happy to rely on the statements to demonstrate what it would most likely have discovered if it had completed proportionate checks.

The relevant statements show several key factors in the months immediately preceding this loan which fundamentally undermine the figures Everyday Loans relied on when completing its I&E assessment. It is this assessment that has led them to continue to defend the sale of this loan, on the basis that Mr E had a healthy amount of disposable income.

In its I&E assessment, Everyday Loans worked on the basis that Mr E's income was approximately £2,408 per month. However, I can see from the statements that in both March and May 2018, Mr E earned only £2,090 and £2,034 respectively, which is a sizeable difference (especially proportionately). I can also see that sometimes Mr E earned *more* than £2,408. But I think in this case it would have been prudent and proportionate to have calculated affordability based on the lower evidenced income in the I&E assessment.

Including mortgage repayments, Everyday Loans estimated that Mr E's monthly outgoings to creditors was £811. (There is no breakdown of the composition of this figure in the file.) It also calculated that he spent around £750 per month on everyday living expenses. The living expenses seem to be a good estimation to me, based on the spending evident on the bank statements. However, Mr E's typical outgoings to creditors was substantially higher. In the months leading up to this application, he was typically spending in excess of £1,200 on his credit commitments (including hundreds of pounds each month to a high-cost short

term lender).

So, a properly evidenced I&E assessment would have allowed for an income of at most £2,100; creditor repayments of £1,250; and living expenses of £750. That would have left Mr E with a typical monthly disposable income of only £100, from which to make the repayment of £155 for this loan. On the balance of probabilities, I conclude that proportionate checks when reviewing this application would have led Everyday Loans to identify that the borrowing could not be fairly or reasonably considered to have been sustainable or affordable for Mr E. It therefore follows that I uphold this complaint.

Putting things right

In order to put things right for Mr E, Everyday Loans must do the following:

A) Everyday Loans must remove all interest, fees and charges from this loan, and treat any repayments made by Mr E as though they had been repayments of the principal on the loan.

B) If this results in Mr E having made overpayments then it must refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the payments were made, to the date the complaint is settled.

C) It must remove any adverse information recorded on Mr E's credit file in relation to this loan.

*HM Revenue & Customs requires Everyday Loans to deduct tax from this interest. It should give Mr E a certificate showing how much tax it's deducted, if he asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct Everyday Lending Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 21 February 2023.

Siobhan McBride

Ombudsman