Complaint

Ms J has complained about a personal loan Everyday Lending Limited ("Everyday Lending") provided to her. She says that the loan was unaffordable and so shouldn't have been provided to her.

Background

Everyday Lending provided Ms J with a loan for £3,000.00 in June 2019. This loan had an APR of 127.1% and a term of 24 months. This meant that the total amount to be repaid of £6,386.16, including interest, fees and charges of £3,386.16, was due to be repaid in 24 monthly instalments of around £265.

One of our investigators reviewed Ms J's complaint and she thought Everyday Lending ought to have realised that it shouldn't have provided Ms J with her loan. So she thought that Ms J's complaint should be upheld.

Everyday Lending disagreed with our investigator's assessment. So the case was passed to an ombudsman for a final decision.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Ms J's complaint. Having carefully considered everything I've decided to uphold Ms J's complaint. I'll explain why in a little more detail.

Everyday Lending needed to make sure it didn't lend irresponsibly. In practice, what this means is Everyday Lending needed to carry out proportionate checks to be able to understand whether Ms J could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

The information Everyday Lending has provided suggested that it carried out credit checks before this loan was provided. The results of which showed that Ms J had a significant amount of existing debt, which she was struggling to manage and was demonstrated by the missed payments and arrangements to pay. And the credit checks also show that Ms J had a significant history of payday loans too.

Furthermore, while there's some suggestion this loan might have been for debt consolidation, the amount didn't correspond to what Ms J owed. It's therefore unclear to me how or what was going to be consolidated and more crucially how this was going to improve Ms J's financial position – especially bearing in mind this loan had a much higher interest rate than some of Ms J's existing debts.

I'm also mindful that Everyday Lending relied on the use of average data to calculate Ms J's living expenses. This is despite the fact that her credit file showed she didn't fit the profile of the average borrower.

All of this leaves me persuaded by what Ms J has said about already being in a difficult financial position at the time. And while it's possible Ms J's financial position wasn't as a result of financial difficulty, I'd add that my experience of these types of cases suggest this is unlikely, in the absence of any reasonable or plausible arguments from Everyday Lending, I've been persuaded to accept Ms J's version of events here.

As this is the case, I do think that Ms J's existing financial position meant that she was unlikely to be able to afford the payments to this loan, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown Everyday Lending that it shouldn't have provided this loan to Ms J.

As Everyday Lending provided Ms J with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards her.

Ms J ended up paying interest, fees and charges on a loan she shouldn't have been provided with. So I'm satisfied that Ms J lost out because of what Everyday Lending did wrong and that it should put things right.

Fair compensation – what Everyday Lending needs to do to put things right for Ms J

Having thought about everything, Everyday Lending should put things right for Ms J by:

- refunding all interest, fees and charges Ms J paid on her loan;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Ms J to the date of settlement†;
- removing all adverse information it recorded on Ms J's credit file as a result of this loan.

† HM Revenue & Customs requires Everyday Lending to take off tax from this interest. Everyday Lending must give Ms J a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Ms J's complaint. Everyday Lending Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 1 March 2023.

Jeshen Narayanan
Ombudsman