

Complaint

Mr E has complained about personal loans Everyday Lending Limited (trading as “Everyday Loans”) provided to him. He says the loans were unaffordable and were therefore irresponsibly lent to him.

Background

Everyday Loans initially provided Mr E with a first loan for £1,000.00 in October 2018. This loan had an APR of 127.1% and a term of 24 months. This meant that the total amount to be repaid of £1,735.20, including interest, fees and charges of £735.20, was due to be repaid in 18 monthly instalments of just under £100. This loan was repaid in full with some of the proceeds from loan 2.

Everyday Loans provided Mr E with loan 2 for £3,000.00 in May 2019. £674.80 of the funds went towards settling the outstanding balance on loan 1. This loan had an APR of 102.9% and a term of 36 months. This meant that the total amount to be repaid of £7,236.36, including interest, fees and charges of £4,236.36, was due to be repaid in 36 monthly instalments of just over £200.

One of our investigators reviewed Mr E’s complaint and she thought Everyday Loans ought to have realised that it shouldn’t have provided Mr E with either of his loans. So she thought that Mr E’s complaint should be upheld. Everyday Loans disagreed. 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 Mr E’s complaint. Having carefully considered everything I’ve decided to uphold Mr E’s complaint. I’ll explain why in a little more detail.

Everyday Loans needed to make sure it didn’t lend irresponsibly. In practice, what this means is Everyday Loans needed to carry out proportionate checks to be able to understand whether Mr E 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 Loans has provided suggested that it carried out credit checks before these loans were provided. The results of which showed that Mr E already had a significant amount of existing debt at the time of loan 1 and that this grew significantly by the time of loan 2. Furthermore, the bank statements Everyday Loans obtained from Mr E showed that he had a number of direct debits and standing order payments returned due to having insufficient funds in his account.

Everyday Loans says it asked Mr E about this and he said that these were down to him changing job. But I don't think that it was reasonable to proceed on this basis of this answer, given the application details suggest that Mr E had changed jobs months earlier.

I'm also concerned that Everyday Loans' own income and expenditure calculation for loan 2 showed that this loan would be taking Mr E right to the margin of his disposal income. And this was in the face of his increasing indebtedness in the period between loan 1 and loan 2 being taken out.

All of this leaves me persuaded by what Mr E has said about already being in a difficult financial position at the time. And while it's possible Mr E's financial position reflected his choices rather than 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 Loans, I've been persuaded to accept Mr E's version of events here.

As this is the case, I do think that Mr E's existing financial position meant that he was unlikely to be able to afford the payments to these loans, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown Everyday Loans that it shouldn't have provided these loans to Mr E. As Everyday Loans provided Mr E with these loans, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

Mr E ended up paying interest, fees and charges on loans he shouldn't have been provided with. So I'm satisfied that Mr E lost out because of what Everyday Loans did wrong and that it should put things right.

Fair compensation – what Everyday Lending needs to do to put things right for Mr E

Having thought about everything, Everyday Loans should put things right for Mr E by:

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

† HM Revenue & Customs requires Everyday Loans to take off tax from this interest. Everyday Loans must give Mr E a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr E'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 Mr E to accept or reject my decision before 22 March 2023.

Jeshen Narayanan
Ombudsman