DRN-3955716

The complaint

Mrs E, through her representative, complains that Progressive Money Limited (PML) lent to her irresponsibly.

What happened

Using information provided to us by PML here are the two loans approved for Mrs E.

Loan	Approved	Amount in total including interest and fees	Capital sum	Term in months	Monthly repayment
1	31 October 2015	£26,199.40	£13,000	60	£436.66
2	3 March 2017	£29,153.40	£15,000	60	£485.89

Loan 1 was paid off by loan 2. The settlement figure was £11,728.57.

Mrs E informed PML she had lost her job in July 2019 but she was able to settle Loan 2 on 6 August 2019.

The details surrounding the application process were given in the final response letter (FRL) Mrs E received after she'd complained to PML in February 2022. It was dated 14 March 2022 and gave reasons why it considered it had carried out proportionate checks and so it did not consider it had to put things right for Mrs E.

After the complaint had been referred to the Financial Ombudsman Service, PML objected to loan 1 being within our jurisdiction but a colleague ombudsman has written a decision to say that we can look at both loans.

One of our adjudicators looked at the complaint and thought that the loans ought not to have been approved. He considered that for loan 1 the money left over for Mrs E each month was too low a sum and that two of the accounts Mrs E had said she was going to use the money from PML to clear those debts had remained open. And he said that because when Mrs E returned to PML for a further loan our adjudicator could see that those two accounts were still open. And our adjudicator thought that the combined regular consumer credit repayments, including the monthly repayments for the new loans, represented a significant proportion of her income on both occasions. So, he upheld the complaint.

PML did not respond and Mrs E's representative asked for an update on the case in December 2022 and will have received notification that the complaint was being passed to an ombudsman. But nothing has been said in reply.

The unresolved complaint was passed to me to decide.

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, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether PML completed reasonable and proportionate checks to satisfy itself that Mrs E would be able to repay in a sustainable way? And, if not, would those checks have shown that Mrs E would've been able to do so? If I determine that PML did not act fairly and reasonably in its dealings with Mrs E and that she has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required PML to carry out a reasonable and proportionate assessment of Mrs E's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so PML had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Mrs E. In practice this meant that PML had to ensure that making the payments to the loan wouldn't cause Mrs E undue difficulty or significant adverse consequences.

In other words, it wasn't enough for PML to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mrs E. 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 several factors including – but not limited to – the 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 a reasonable and proportionate 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).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mrs E's complaint. I'm planning to uphold the complaint.
Loan 1 involved a long recorded call between PML's underwriter and Mrs E. I've listened to it and all details were covered. Mrs E was content to take the loan on the terms offered.

During that call, the credit file the PML representative obtained was focussed on and a copy has been provided to us together with the income and expenditure form it carried out plus some copy bank statements PML asked for.

The credit file alone was detailed enough to show that Mrs M had a joint mortgage which was costing her and her husband quite a lot each month. The credit file said around £955 a month and Mrs E had said it was due to come down to £760 a month. And PML split that cost in half as it (plus the council tax and some bills) came out of a joint account with Mrs E's husband. The bank statements which were as recent as 1 October 2015 onwards showed that the mortgage paid on 1 October 2015 was £955 and I've seen nothing to verify that the mortgage had reduced to a £760. So, I think that PML were wrong not to do that.

Mrs E had a lot of outstanding debt on top of the mortgage - £36,677 on loans and instalment credit and £8,222 on revolving credit accounts. She had 11 active accounts, had opened six in the previous six months and there had been 29 credit searches in the previous three months.

She was asked if she'd tried her bank to obtain credit. Mrs E's answer was that she had and had not obtained credit. Mrs E worked for a bank and had done so for 13 years. So, I consider that there were enough pieces of information in those credit search summaries and the answers to her initial questions to have alerted PML to there being a reason she was wanting a further £13,000 credit so soon after taking six others credit accounts in recent months.

In PML's FRL it accepts that the disposable income after it had calculated all had been paid off left Mrs E with £123 per month. Even on its own figures I consider that too low and gave Mrs E too narrow a margin for eventualities especially where the loan term was five years.

For loan 2, my view is much the same.

I listened to all the three calls I have been sent which were in 2017 and the first one was 2 March 2017.

Mrs E was offered a settlement figure for loan 1 of £11,728.57.

And she was offered fresh credit of £15,000 pretty much immediately. At first £3,271.43 was due to be left over for her own use. Then as the call progressed two further accounts were to be cleared and would have left Mrs E with around £315 to be paid into her bank account. She had informed PML that she had just returned to work after maternity leave - back in January 2017.

PML carried out a new credit search and Mrs E's headline figures had changed – the loans/instalment loan figure had increased to £47,166 and she had £7,785 on revolving credit.

But one of her credit cards was still at around £6,590 and it was that card which was one of the accounts the first PML loan was meant to consolidate – around £6,900 in 2015 – but the credit file records from March 2017 show that Mrs E never paid it off.

The income and expenditure document I have seen for loan 2 indicates that her income was £2,575 per month. But her bank statements reviewed by PML had a note next to her salary for 17 February 2017 at £2,332 and marked 'normal'.
And her payslip for 16 January 2017 was £426.77, and for 31 January 2017 was a net pay of £1,804. And the payslip for 28 February 2017 was £2,332.

PML only obtained 30 days of the joint bank account statements whereas for loan 1 it had looked at both the joint and the sole account she had. So, I do not consider it had the full picture to know why it was that Mrs E needed the additional credit and to refinance the first loan especially after she'd received a £1,691 bonus on 31 January 2017.

During this call in March 2017 the PML representative had calculated Mrs E had £149.05 disposable income after all outgoings and commitments had been paid. And he explained he had halved quite a lot of those too. I understand from listening to the call that the reason for that was because Mrs E had told the PML representative that some bills were shared with her husband. But PML failed to obtain much information about her husband's income or outgoings and so I do not consider that to have been the right approach.

Still the PML representative had said to Mrs E that the disposable income on the new loan was quite tight and so he was concerned that there was nothing that had been missed. A further £60 of expenses on top of what had been discussed was going to mean that PML would want to extend the loan. Which I assume meant stretching it over a longer term. Even if I am wrong on that I think that PML knew it was all too tight.

I agree with the adjudicator that Mrs E was too heavily indebted to be taking a further loan with PML over a further term of 60 months. It was due to cost her £485.89 a month for this loan and still she had other debt too.

I do not think that PML utilised the information it had about Mrs E fully enough to get to the bottom of why it was Mrs E was needing so much credit and regularly.

The PML loan representative said more than once during the call that he was not feeling at all well and his throat was 'on fire'. Added to which the call was at 7:20 in the evening and Mrs E had a baby with her while she was trying to make these decisions and the telephone line was poor. And so, the overall background situation was not a good one.

These I consider to have been additional and smaller factors but the overall situation was inappropriate for such a large loan and heavy commitment. And I noticed that the call just ended without any explanation. The next morning Mrs E called PML and explained it had cut off mid-call with no explanation. She was told that the man she had been speaking to was off that day.

I uphold Mrs E's complaint.

Putting things right

PML ought not to have approved either of the loans for Mrs E. I understand they have been repaid.

- refund all interest and charges Mrs E paid on both loans
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about both from Mrs E's credit file;

† HM Revenue & Customs requires PML to take off tax from this interest. It must give Mrs E a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Mrs E's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs E to accept or reject my decision before 9 March 2023.

Rachael Williams
Ombudsman