

The complaint

Miss T complains through a representative that Evergreen Finance London Limited trading as MoneyBoat.co.uk (MoneyBoat) gave her loans she couldn't afford to repay.

What happened

Miss T was advanced two loans by MoneyBoat, and a summary of her borrowing follows in the table below.

loan number	loan amount	agreement date	repayment date	number of instalments	instalment amount
1	£250.00	04/04/2019	19/06/2019	3	£117.79
2	£1,500.00	22/07/2019	18/11/2020	6	£490.44

In response to Miss T's representative's complaint, MoneyBoat wrote to it explaining why it wasn't going to uphold her complaint. The representative didn't agree, and instead referred the complaint to the Financial Ombudsman.

The complaint was reviewed by an adjudicator, and he didn't uphold Miss T's complaint about loan 1. But he thought loan 2 shouldn't have been granted because the repayment of this loan – along with the other payday loans Miss T had outstanding - represented a significant portion of her declared income. And so, the loan ought to not have been granted.

Miss T's representative acknowledged the assessment and didn't have anything further to add.

MoneyBoat didn't agree because the adjudicator considered the loan to be affordable and it said Miss T lived at home with parents which would naturally lead to more disposable income.

As no agreement was reached, the case has been 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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

MoneyBoat had to assess the lending to check if Miss T could afford to pay back the amounts she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. MoneyBoat's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss T's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest MoneyBoat should have done more to establish that any lending was sustainable for Miss T. These factors include:

- Miss T having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Miss T having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Miss T coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Miss T. The adjudicator didn't think this applied to Miss T's complaint.

MoneyBoat was required to establish whether Miss T could *sustainably* repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Miss T was able to repay her loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Miss T's complaint.

The adjudicator didn't uphold the complaint about loan 1 and neither Miss T, nor her representative nor MoneyBoat appear to disagree with this outcome. To me, it seems that this loan is no longer in dispute, so I say no more about it. Instead, this decision will focus on whether MoneyBoat was right or wrong to have advanced loan 2.

Loan 2

For this loan, Miss T declared she had a monthly income of £2,700. MoneyBoat says this figure was checked with a credit reference agency for its accuracy, but it hasn't provided the results of this check. It also says it confirmed her employment details with her employer.

Miss T declared her expenditure to be £120 per month – this only covered her food. She declared no other living costs. However, as part of the affordability check MoneyBoat said it did the following.

“On your loan applications we increased the monthly expenditure that you input, on the basis that your credit report highlighted different expenditure than you had disclosed, and/or to bring you in line with the average expenditure listed on the Common Financial Statement.”

As a result of these additional checks, MoneyBoat increased Miss T's monthly expenditure by £680, giving her total monthly outgoings of £800. This left £1,900 per month of disposable

income to meet the repayments Miss T was committed to making. Based solely on the income and expenditure information the loan looked affordable.

MoneyBoat says Miss T declared she lived at home with parents and that would explain why she firstly would've had minimum living costs and secondly, why this could lead her to having such a large disposable income. But I would add, that for loan 2, she only declared £120 which I really don't think was believable or could have been relied upon as being anyway accurate.

In addition, and only because it doesn't change the outcome I am reaching, MoneyBoat knew of a couple of declined loan applications between loans 1 and 2. And for two of these applications Miss T had declared she was a private tenant. Which is further evidence for MoneyBoat to have questioned what Miss T was telling it.

MoneyBoat increased her living costs by £680 - but Miss T had declared £0 for credit commitments when her credit file results showed outstanding credit. I do think, this alone either needed to have prompted MoneyBoat to have carried out further checks to see whether Miss T did in fact have other living costs or whether there was something else that needed to be considered. I only say this as an aside because it doesn't affect the outcome I am intending to reach. But is something that MoneyBoat ought to have considered before it approved the loan.

MoneyBoat says a credit check was carried out before this loan was granted, and a copy of the results have been provided to us. It is entirely reasonable to consider these results to see what MoneyBoat knew about Miss T's other credit commitments (and credit history) at the time it advanced this loan.

MoneyBoat, just from the initial summary page knew Miss T's had debts of just over £11,000 spread across 13 active credit accounts. Miss T was also using 106% of her "*revolving credit / budget*" accounts – which suggests that she was over her agreed limit on one or more of those accounts. This is a significant increase since her first loan, where Miss T was only using 6% of her available credit. Which to me, indicates a worsening financial position, even though this loan was only taken out three months later.

In addition, she had now taken 13 new credit facilities within the last six months. Which is again a significant increase on the 9 new credit facilities she opened in the six months before loan 1.

Based solely on the initial summary page, I think it's fair to say MoneyBoat ought to have been on notice that Miss T's finances were potentially deteriorating. I say this because she was demonstrating she was above her limits on one or more account(s), and she was also averaging taking more than two new credit facility per month which in my view isn't sustainable and is in my view an indication of financial difficulties.

The adjudicator upheld this loan because in his view, with this loan repayment, Miss T would have to pay a significant portion of her income towards her outstanding payday commitments.

Having looked at everything, I agree with him. Miss T owed other payday and home credit providers (when this loan was included) nearly £900 per month in commitments, which is over 30% of her declared income. On top of those commitments to the payday providers, Miss T also needed to service three credit cards and at least two telecommunication contracts. So, her existing credit commitments were greater still.

In this situation, I do think this loan was unsustainable, especially in light of the other factors that I mention below which support that the payment for this loan wouldn't be suitable because she was clearly having problems managing her existing credit commitments.

The reason above, is enough on its own to uphold this loan. However, MoneyBoat was given further information which reinforces why this loan was unsustainable for Miss T and I've gone on to explain why below.

Miss T had several current / building societies accounts and on one of them she had exceeded her overdraft limit and her bank was reporting a "6" for the payment status. At a payment status at 6 – it had reached the point, where if the bank may have defaulted the account. I accept MoneyBoat wasn't responsible for this process, but it does indicate that Miss T's financial position wasn't great and hadn't been for some time.

MoneyBoat was also on notice that Miss T had three credit card accounts, all of them above the agreed credit limit and with one account having been over its credit limit for at least six months and was showing a "2" for the payment status. This indicated Miss T hadn't made any payments at all within the last two months. To me this is a sign of someone struggling to keep on top of their existing credit commitments.

Finally in the six weeks before this loan was approved, Miss T had repaid seven loan accounts, when considering the amounts borrowed and the term it is likely these were payday loans – indeed one of these she had adverse payment markers recorded against her for April 2019. So, Miss T had demonstrated that she was taking out multiple credit commitments each month, repaying them and then returning for further funds. Clearly, this isn't sustainable in the long term.

Overall, taking account of what the credit check results showed, MoneyBoat ought to have concluded that firstly, the loan wasn't sustainable for Miss T given her existing credit commitments to what was likely a combination of high-cost credit and payday loans. And secondly, there was enough other evidence within the checks to indicate that Miss T was likely having financial difficulties given the number of missed payments and the fact she had several accounts over their prescribed credit limits.

I am therefore upholding Miss T's complaint about loan 2.

Putting things right

In deciding what redress MoneyBoat should fairly pay in this case I've thought about what might have happened had it not lent loan 2 to Miss T, as I'm satisfied it ought to have.

Clearly there are a great many possible, and all hypothetical, answers to that question. For example, having been declined this lending Miss T may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, she may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, she may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if she had done that, the information that would have been available to such a lender and how she would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Miss T in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Miss T would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce MoneyBoat's liability in this case for what I'm satisfied it has done wrong and should put right.

MoneyBoat shouldn't have given Miss T loan 2.

- A. MoneyBoat should add together the total of the repayments made by Miss T towards interest, fees and charges on loan 2 including payments made to a third party where applicable, but not including anything MoneyBoat has already refunded.
- B. MoneyBoat should calculate 8% simple interest* on the individual payments made by Miss T which were considered as part of "A", calculated from the date Miss T originally made the payments, to the date the complaint is settled.
- C. MoneyBoat should pay Miss T the total of "A" plus "B".
- D. MoneyBoat should remove any adverse information recorded on Miss T's credit file in relation to loan 2.

*HM Revenue & Customs requires MoneyBoat to deduct tax from this interest. MoneyBoat should give Miss T a certificate showing how much tax has been deducted, if she asks for one.

My final decision

For the reasons I've explained above, I'm upholding Miss T's complaint in part.

Evergreen Finance London Limited trading as MoneyBoat.co.uk should put things right for Miss T as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 24 May 2023.

Robert Walker
Ombudsman