DRN-4072145

The complaint

Mr K complains that Progressive Money Limited ("Progressive Money") lent to him irresponsibly.

What happened

Mr K took out a fixed sum loan agreement with Progressive Money in April 2018. He borrowed £3,000 over 48 months, repaying £157 a month. The total cost of the loan was £4,535.76

Mr K says he couldn't afford the credit and that he got into financial difficulty and couldn't pay it back. He says Progressive Money ought to have known the credit was unaffordable for him.

Progressive Money says it did all the necessary checks before it lent to Mr K. It says it very carefully considered whether the loan was affordable and whether repayments would be sustainable for him and concluded that it would.

Our investigator considered that Mr K's complaint should be upheld. She thought that although Progressive Money had done necessary and proportionate checks it didn't act fairly on the information it obtained.

Progressive Money disagreed with the view. It noted two factual errors in the investigator's assessment and made representations about why it felt it was a reasonable decision to lend to Mr K despite evidence of significant debts and defaults. It also made comments about how Mr K managed his account well for a while before he got into trouble.

Our investigator reviewed this information and concluded that it did not change their opinion about the lending.

As Progressive Money did not agree, the complaint has been passed to me to make a decision.

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 and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mr K's complaint.

Having done so, I have come to the same conclusion as our investigator. I will explain why I have reached this decision.

Progressive Money needed to take reasonable steps to make sure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr K could afford to repay what he was being lent in a sustainable manner.

The checks had to be "borrower-focused" – so Progressive Money had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mr K undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Progressive Money to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr K.

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 a number of factors including – but not limited to – the particular 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.

Progressive Money said that it conducted checks to ensure that the credit would be affordable for Mr K when he took out the loan. Having reviewed those checks I think they were thorough. They checked his credit file and also his bank statements. An underwriter spoke to Mr K in person to discuss his personal circumstances in depth.

Those checks revealed that Mr K had a very chequered credit history. He had 13 defaults, the most recent of which was registered 15 months before his application. There was evidence of two satisfied County Court Judgements (CCJ) in September and July 2016. Mr K had outstanding debts of over £19,000 (more than an entire year's gross salary) and defaults totalling £11,599. His credit file showed 18 delinquent accounts in the preceding 12 months.

When Progressive Finance spoke to Mr K about these he explained that the debts had been incurred by his partner. Sadly, she had died in 2014 and he said he had been unaware of the debts until that point. He had sought the advice of a solicitor in relation to the two CCJs but had been told it was too late to do anything about them, so he had paid them off.

Mr K's credit file showed that these were sole accounts in his name. Had they been in Mr K's partner's name her estate would have been responsible for repaying the debts and had there not been sufficient in the estate to satisfy those debts they would have been written off. So, regardless of who had spent the money which created the debts, they were solely Mr K's responsibility as they were in his sole name. Progressive Money's notes stated that Mr K was 'unable to pay' them. I note that more than one of the accounts was opened after Mr K's partner's death and at least one of them was a sole current account in Mr K's name so it's not clear to me that Mr K had otherwise managed his finances well.

Mr K was making no payments towards those debts. He also had additional personal loan debt in the form of a loan which he was in a current 'arrangement to pay', although it was for a small sum. Mr K explained that loan had been to help him pay bills when he was unable to work when his partner died. He had incurred bank charges in the months preceding his application, in one case when a direct debit was returned unpaid.

Progressive Money explained that although Mr K had been making no payments towards the debts, it made an allowance of one per cent of those outstanding debts each month in its assessment of whether he had enough disposable income to allow him to borrow more. On this basis, if no further interest or charges were applied, it would take Mr K over eight years to repay the money he already owed. There was no information to suggest creditors would accept repayment on terms of one per cent a month as Progressive Money had allowed for.

I don't think this was reasonable. Mr K was making no payments at all towards the debts, and they were not subject to agreed repayment plans. He was effectively ignoring them and seemed to have little intention of paying them, even though according to Progressive Money's assessment he had disposable income with which he could have done so. While he may notionally have had disposable income he was still spending on average more than his income over the three months prior to applying for the loan. Mr K was not consolidating debts – he told Progressive Money that he would use the loan to tile his bathroom and maybe for a holiday – so the additional borrowing would not decrease the amount owed. It would have increased his overall debt balance.

Mr K had told Progressive Money that he owned his home jointly with his son and it had been a gift from his father. This meant that creditors could potentially obtain a charging order against his property for his unsecured debt. The consequences for Mr K failing to meet his repayments on both his proposed new loan agreement and his existing debts were potentially very significant.

So, while on the face of it Mr K appeared to have sufficient disposable income to afford the loan I think Progressive Money ought reasonably to have realised that Mr K was overindebted and finding it difficult to manage his debts and he would continue to do so in the future. It was unlikely Mr K could make sustainable repayments on the borrowing. It follows that I don't think it made a fair lending decision.

Putting things right

Progressive Money should not have provided the loan to Mr K. To settle this complaint Progressive Money should do the following:

- Add up the total amount of money Mr K received as a result of having been given this fixed sum loan agreement.
- Subtract the repayments Mr K has made from this amount.
- If this results in Mr K having paid more than he received, any overpayments must be refunded along with 8% simple interest* calculated from the date the overpayments were made to the date of settlement.
- If any capital balance remains outstanding, Progressive Money should arrange an affordable and suitable payment plan with Mr K.
- Remove any negative information recorded on Mr K's credit file as a result of the interest and charges of the loan, If the loan is still outstanding this should be done once the outstanding balance has been cleared.

*HM Revenue & Customs requires Progressive Money to deduct tax from any award of interest. It must give Mr K a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I have decided that Progressive Money acted unfairly when it gave Mr K the fixed sum loan agreement. To put things right I direct Progressive Money UK Plc to pay compensation as detailed above.

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

Sally Allbeury
Ombudsman