

Complaint

Mr E has complained about guarantor loans Everyday Lending Limited (trading as “George Banco”.com) provided to him.

He says the loans were unaffordable and so should never have been provided to him.

Background

George Banco provided Mr E with five guarantor loans in total. It initially provided Mr E with a first loan for £2,000.00 in July 2015. This loan had an APR of 73.2% and a term of 18 months. This meant that the total amount to be repaid of £3,004.02, including interest, fees and charges of £1,004.02, was due to be repaid in 18 monthly instalments of £166.89.

Loan 1 was settled early with some of the proceeds from loan 2, which George Banco provided to Mr E in February 2016. The total amount advanced was £3,100.00 and £1,514.00 went towards repaying the outstanding balance on loan 1. Loan 2 had an APR of 51.8% and a term of 30 months. This meant that the total amount to be repaid of £5,081.70, including interest, fees and charges of £1,981.70, was due to be repaid in 30 monthly instalments of £169.39.

Loan 2 was also settled early. This was done with some of the proceeds from loan 3, which George Banco provided to Mr E in July 2016. The total amount advanced for loan 3 was £4,200.00 of which £2,960.50 was used to settle the outstanding balance on loan 2. This loan had an APR of 49.7% and a term of 36 months which meant that the total amount to be repaid of £7,365.60, including interest, fees and charges of £3,165.60, was due to be repaid in 36 monthly instalments of £204.60.

However, loan 3 was also settled early. This was done with some of the proceeds from loan 4, which George Banco provided to Mr E in April 2017. The total amount advanced for loan 4 was £5,600.00 of which £4,942.02 was used to settle the outstanding balance on loan 3. This loan had an APR of 47.2% and a term of 48 months which meant that the total amount to be repaid of £11,183.52, including interest, fees and charges of £5,583.52, was due to be repaid in 48 monthly instalments of £232.99.

Loan 4 was also settled early. This was done with some of the proceeds from loan 5, which George Banco provided to Mr E in December 2017. The total amount advanced for loan 5 was £7,500.00 of which £4,942.02 was used to settle the outstanding balance on loan 4. This loan had an APR of 45.74% and a term of 60 months which meant that the total amount to be repaid of £16,922.40, including interest, fees and charges of £9,422.40, was due to be repaid in 60 monthly instalments of £282.04.

One of our investigators reviewed Mr E's complaint and she thought George Banco didn't do anything wrong when it provided Mr E with loan 1. But she also thought that George Banco should have realised that it shouldn't have provided Mr E with loans 2 to 5. So she thought that Mr E's complaint should be partially upheld.

Mr E didn't disagree with our investigator's conclusions. But George Banco did disagree so the case was passed to an ombudsman for a final decision.

As the parties are in agreement with the outcome reached on loan 1, this decision is only looking at whether George Banco acted fairly and reasonably when providing loans 2 to 5 to Mr E.

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 about loans 2 to 5. I'll explain why in a little more detail.

George Banco needed to make sure it didn't lend irresponsibly. In practice, what this means is George Banco needed to carry out proportionate checks to be able to understand whether Mr E could afford to repay any credit it provided. The fact that George Banco may also have been able to seek payments from a guarantor did not alter or dilute this obligation in any way.

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 George Banco has provided suggested that it carried out credit checks before all of these loans were provided. The results of which showed that Mr E had had previous difficulty repaying credit at the time of loan 2. While this may have been historic, the credit check would more likely than not have shown that Mr E was in a cycle of payday lending at this time.

I'm also concerned that George Banco checks appear to indicate that it accepted at face value that Mr E had a monthly disposable income which increased during the course of loans 2 to 5 at one stage it was apparently close to £700, despite this being inconsistent with what showed on the credit searches and Mr E's apparent need to borrow increasing amounts on such disadvantageous terms.

Given the apparent mismatch between the disposable income figures arrived at and what Mr E's credit file and borrowing history showed, I do think that there was a need for George Banco to carry out further enquiries into Mr E's financial circumstances before it agreed to provide loans 2 to 5 to him. In particular, I think that it needed to find out more about Mr E's actual expenditure before it agreed to provide these loans to him.

Mr E has now provided us with evidence of his financial circumstances at the time he applied for these loans. Of course, I accept different checks might show different things. And just

because something shows up in the information Mr E has provided, it doesn't mean it would've shown up in any checks George Banco might've carried out.

But in the absence of anything else from George Banco showing what this information would have shown, I think it's perfectly fair, reasonable and proportionate to place considerable weight on what this information says as an indication of what Mr E's financial circumstances were more likely than not to have been at the respective times.

At this point, I do think it's important for me to set out that George Banco was required to establish whether Mr E could sustainably make his loan repayments – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

As this is the case, I do think that the information provided does show that Mr E's existing financial position as well as his previous difficulties meant that he was always unlikely to be able to afford the payments to these guarantor loans, without undue difficulty or borrowing further. Indeed, he already appears to have been relying on borrowing further in order to meet his commitments. This was not a viable strategy for repaying these loans.

I'm therefore satisfied that reasonable and proportionate checks would more likely than not have shown George Banco that it shouldn't have provided these loans to Mr E. As George Banco provided Mr E with loans 2 to 5, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

Mr E ended up paying interest, fees and charges on guarantor loans he shouldn't have been provided with.

So I'm satisfied that Mr E lost out because of what George Banco did wrong and that it should now put things right as a result.

Fair compensation – what George Banco needs to do to put things right for Mr E

Having thought about everything, George Banco should put things right for Mr E by:

- refunding any interest, fees and charges that Mr E himself actually paid as a result of loans 2 to 5;
- adding interest at 8% per year simple on any refunded interest payments from the date they were made by Mr E to the date of settlement†;
- removing any adverse information it may have recorded on Mr E's credit file as a result of these loans.

† HM Revenue & Customs requires George Banco to take off tax from this interest. George Banco 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 4 September 2023.

Jeshen Narayanan
Ombudsman