DRN-4203615

The complaint

Mr K complains that Everyday Lending Limited, trading as Everyday Loans, lent to him irresponsibly and without carrying out proper affordability checks.

What happened

Between 2016 and 2019 Everyday Loans approved five loans for Mr K. However, the dispute about the first four loans has been resolved, so this decision will only be considering loan five.

Loan five was given in May 2019 for £5,000 and was scheduled to be repaid at approximately £277 per month over a term of 36 months. It would seem that the loan was intended to be used to buy a car. Everyday Loans says that Mr K settled the loan early.

When assessing the applications, Everyday Loans took steps to verify Mr K's financial circumstances and carried out a credit check before approving the lending.

The investigator thought that Everyday Loans shouldn't have given Mr K this loan, and provided clear reasons as to why. Everyday Loans said it didn't accept that view, but hasn't said why or what it disagreed with. So the case has been passed to me for review and 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.

Having done so, I'm going to uphold this complaint broadly for the same reasons as those of the investigator.

Everyday Loans is aware of its obligations under the rules and regulations in place at the time of this lending decision, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mr K would be able to repay the borrowing applied for in a sustainable way.

Did Everyday Loans carry out proportionate checks before granting this loan?

Everyday Loans asked Mr K about his income and expenditure (I&E); reviewed copies of bank statements; and carried out a credit check when considering his loan application. Like the investigator, I'm satisfied that its checks went far enough.

Did Everyday Loans respond appropriately to the information it had when deciding whether to provide this loan?

Based on what it knew about Mr K, I don't think Everyday Loans could reasonably have concluded that this loan would be sustainable for him, bearing in mind the regulations in force.

The investigator thought that, once the repayments for this loan had been taken into account, Mr K simply didn't have enough income to meet his financial commitments and would in fact be left with a monthly deficit of some £53.

As mentioned, Everyday Loans has not explained what it disagrees with in that view. I have looked carefully at the evidence and the I&E completed by Everyday Loans does not entirely add up. Whether Mr K would have been left with a monthly deficit of exactly £53 or not I cannot say for sure, but it isn't important in this instance.

Mr K's income was noted as being approximately £1,630. Rent costs were listed as £300 per month; estimated living expenses as £522; and creditor repayments as £587. What Everyday Loans included in the creditor repayments figure is not clear. However, the I&E document goes on to identify that Mr K was consolidating debt to the value of £844, which was the amount outstanding on his fourth loan with Everyday Loans. However, we have been told that the purpose of loan five was for a car purchase, not for debt consolidation. Additionally, it would appear that Everyday Loans paid the entire £5,000 loan over to Mr K, rather than retaining the £844 as I would expect were that amount to be used in settlement of loan four. So I don't think repayments on loan four can be excluded from a consideration of Mr K's monthly debt burden.

Considering all the evidence Everyday Loans had available to it, including the repayment for loan four, I think it would have been reasonable to estimate that Mr K's creditor repayments were around £500 per month. When you add that to his rent and living costs, that leaves him with a disposable income of around about £300, give or take. So adding a further repayment of £277 for loan five to his burden could not have been identified as affordable or sustainable for him.

It therefore follows that the evidence in this case leads me to uphold the complaint on the basis that Everyday Loans' assessments did not demonstrate that the borrowing was affordable and sustainable for Mr K.

Putting things right

It appears that Mr K has settled this loan. In order to put things right for him, Everyday Loans must do the following:

A) Everyday Loans must remove all interest, fees and charges from the loan, and treat any repayments made by Mr K as though they had been repayments of the principal on the loan.

B) If this results in Mr K having made overpayments then it must refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the payments were made, to the date the complaint is settled.

C) Whilst I don't believe there is, should there still be an outstanding balance following the actions set out in "A", then Everyday Loans should agree a suitable repayment plan with Mr K.

D) It must remove any adverse information recorded on Mr K's credit file in relation to this loan, once it has been repaid.

*HM Revenue & Customs requires Everyday Loans to deduct tax from this interest. It should give Mr K a certificate showing how much tax it's deducted, if he asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct Everyday Lending Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 September 2023.
Siobhan McBride
Ombudsman