DRN-4242837

The complaint

Mr B, through a representative, says Everyday Lending Limited (ELL), trading as Everyday Loans, irresponsibly lent to him.

What happened

Mr B took out three instalment loans from ELL. A summary of his borrowing follows.

loan	taken out	value, £	term in months	monthly repayment, £	total repayment, £
1	Nov-17	1,300	24	155.63	3,735.12
2	Oct-19	5,100	36	282.90	10,184.40
3	Apr-21	6,200	36	353.99	12,743.64

Loan 3 was taken out to repay loan 2 in part. Mr B says he wanted loan 1 to buy a computer but then kept being offered better rates by ELL so took out more loans. He did repay some other debts, but has ended up having to take out more loans to make his repayments.

Our investigator did not uphold Mr B's complaint saying he did not find ELL had lent irresponsibly to Mr B.

Mr B disagreed and gave examples of the information on his credit file and bank statements that indicated he was gambling, over-indebted and reliant on credit. He asked for an ombudsman's review.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision.

Extract from my provisional decision

I can see ELL asked for some information from Mr B before it approved the loans. It asked for details of his income and checked this on recent bank statements. It verified his declared employment. It asked for his housing costs and estimated his living costs using national statistics, adding a buffer to cover unexpected expenses. It also checked Mr B's credit file to understand his existing monthly credit commitments and credit history each time. It asked about the purpose of all three loans. Mr B said the first was for a computer, the second was for debt consolidation and wedding costs and the third was for debt consolidation. From these checks combined ELL concluded Mr B could afford to take on the loans and repay them sustainably.

I think these checks were proportionate for loans 1 and 2, but I think more should've have been done for loan 3 to understand Mr B's actual outgoings. However I won't comment further on this as even based on the information it did gather, I am not persuaded ELL made a fair lending decision for loan 3. I think it did for the first two loans. I'll explain why.

Loan 1

ELL calculated that Mr B would have disposable income of £805. It could see from its credit check he had unsecured debt of £11,683 and had only one search registered in the last six months. He had one late payment on a credit card that was overlimit but the balance was low and his was up to date on all his other active accounts. There was no adverse data such as defaults or CCJs. There were two payday loans showing on his credit report but these were settled and the most recent was in January 2017. There was also evidence of frequent gambling transactions on Mr B's bank statements but I don't think at this stage he was spending such a proportion of his income in this way that ELL ought to have been concerned. In the round I think it was reasonable for ELL to conclude Mr B would be able to sustainable repay this loan.

It follows I don't think ELL was wrong to give loan 1 to Mr B.

Loan 2

My findings are similar for loan 2. ELL calculated that Mr B would have disposable income of £695.54 after repaying the debts he planned to. The credit check showed Mr B's indebtedness had not increased and there were only two searches in the last six months. I can see Mr B had missed some payments on a hire purchase agreement but for last three months it had been up to date. Similarly there were occasional missed payments on Mr B's credit cards, and two with low balances were over limit. So whilst there was some adverse data I don't think it was such that ELL ought to have declined the application. But I say this only as this loan was for debt consolidation. ELL was directly settling two other high-cost loans and Mr B was repaying a high-cost line of revolving credit.
I note there was still evidence of gambling on Mr B's bank statements and it had increased since loan1, but his income had too and the percentage of income he was spending in this manner had not increased.

I think in the specific circumstances of this application it was reasonable again for ELL to lend to Mr B.

Loan 3

Mr B applied for more funds for debt consolidation during the term of loan 2. At this stage his indebtedness had increased significantly to over £20,000 and there were five searches for credit registered on his file in the last six months. He had not closed the line of high-cost revolving credit as planned at the time of loan 2 and seemed to be increasingly reliant on credit. Mr B's income had increased quite significantly, yet he still needed to use short-term high-cost credit six times in March 2021, starting only ten days after payday. I think by this stage it was clear Mr B was trapped in a cycle of borrowing to repay and ELL needed to consider this, not just the pounds and pence affordability. There was clear evidence Mr B was borrowing informally from family and friends frequently, as well as other high-cost lenders. Mr B had by this stage been borrowing from ELL for over 40 months without a break and each loan was for a larger amount. I cannot see how ELL can argue this lending was sustainably affordable for Mr B, and it knows it was obliged to consider this. I think there was a high risk Mr B would either need to borrow to repay or suffer other financial harm.

I can see the loan was again for debt consolidation but after repaying loan 2 Mr B received around £2,500 to use against his other debts and they were far in excess of this. So this time I cannot see the loan wouldn't most likely be financially detrimental.

It follows I think it was wrong for ELL to give loan 3 to Mr B.

I haven't seen any evidence that ELL acted unfairly towards Mr B in some other way.

I then set out what ELL would need to do to put things right and I asked both parties to send any comments by 13 July 2023.

Mr B responded to say he had no further points to add. ELL did not reply.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any new evidence or comments I have no reason to change the findings or outcome I set out in my provisional decision.

It follows I think ELL was wrong to provide loan 3 to Mr B.

Putting things right for loan 3

It's reasonable for Mr B to repay the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been given to him. So he has lost out and ELL needs to put things right.

It should:

- Refund all the interest and charges on the loan – so add up the total Mr B repaid and deduct the sum from the capital amount.
- If reworking Mr B's loan account results in him having effectively made payments above the original capital borrowed, then ELL should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Mr B's loan account results in an outstanding capital balance, ELL should try to agree an affordable repayment plan with Mr B.
- Remove any adverse information recorded on Mr B's credit file in relation to the loan once any outstanding capital balance has been repaid.

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

My final decision

I am upholding Mr B's complaint in part.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 11 August 2023.

Rebecca Connelley
Ombudsman