

Complaint

Mr K is unhappy PDL Finance Limited (trading as “Mr Lender”) provided him with high-cost short-term credit instalment loans. He says that these loans were irresponsibly provided because he already had significant debt at the time.

Background

This complaint centres around the provision of high-cost short-term credit instalment loans. Mr Lender provided two such loans to Mr K. The first of which was for £300, was to be paid in three monthly instalments, with the amount of the highest instalment being around £190, and was provided in September 2021.

The second of the loans was provided in March 2022. It was for £200 and was to be paid in six monthly instalments, with the amount of the highest instalment being around £70.

One of our investigators looked at Mr K’s complaint and she didn’t think that Mr Lender had done anything wrong or treated Mr K unfairly. So she didn’t recommend the complaint be upheld.

Mr K disagreed and asked for an ombudsman to look at his case.

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 set out our general approach to complaints about short-term lending - including the key relevant rules, guidance and good industry practice - on our website. I’ve referred to this when considering Mr K’s case.

Having carefully considered everything, I’m not upholding Mr K’s complaint. I’d like to explain the reasons for my decision in a bit more detail.

Mr Lender needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Mr Lender needed to carry out proportionate checks to be able to understand whether Mr K could afford to make the monthly repayments before providing this loan.

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.

Mr Lender provided Mr K with loans which were due to be repaid in three monthly instalments and six monthly instalments respectively. As I understand it, Mr Lender asked Mr K to confirm his monthly income and expenditure on each occasion and took steps to cross-check some of this information. The cross-checking took the form of from credit checks and information Mr K provided. Mr Lender says that the information gathered suggested that the loan repayments were affordable and it was reasonable to lend on each occasion.

On the other hand, Mr K says the information Mr Lender based its decisions on didn't accurately reflect his actual financial position and he shouldn't have been lent to, on either occasion.

I've considered what the parties have said. It's fair to say that Mr Lender gathered a reasonable amount of information about Mr K and didn't simply rely on what he'd said before providing either of these loans. Mr K has said that he was absent from work at the time the second loan was issued and if Mr Lender had done what it said it did here, it would have seen this.

I've thought about what Mr K has said. And I think that it's important to clarify what checks Mr Lender carried out on each occasion as it hasn't been entirely consistent on this matter during the course of Mr K's complaint journey. For Mr K's first loan, what Mr Lender did was cross check Mr K's declaration of his monthly income against information on the amount of funds going into his bank account each month.

While Mr Lender has referred to open banking and checking Mr K's bank account, what it did wasn't the same as verifying what Mr K said against all of his bank transactions. I've seen the output of the information it received I'm satisfied that this is the case. In any event and what's important here is that this cross-checking appears to have suggested that what Mr K declared receiving each month was plausible given all of the funds going into his account each month.

The information provided actually suggests Mr K was receiving more than what he'd declared for his income, but Mr Lender opted to consider Mr K's application against his declaration of income. And, in these circumstances, given the declaration was for a lower amount, I don't think that it was unreasonable for Mr Lender to proceed on the basis of Mr K's declaration, as it did so here.

For the second loan, Mr K provided Mr Lender with payslips and these have been provided to me. So I'm satisfied that Mr Lender is likely to have seen them at the time of this application. Mr Lender used this information to take an average of Mr K's earnings over the period leading up to this application. I accept that this showed Mr K was earning less than he was doing at the time of his application for loan 1.

But I also have to weigh this against the fact that he was borrowing less and repaying it over a longer term. This meant that his monthly repayments, for loan 2, were considerably lower than for loan 1. And the repayments for loan 2 appear to have been affordable even on Mr K's reduced income.

It's also fair to say that Mr K had existing debts and that he had a default on his credit file. I accept that some lenders may choose not to lend to customers with this type of credit profile. But I don't think that this in itself means that Mr Lender shouldn't have lent to Mr K. Ultimately, it is its call as to whether it wishes to serve this market. What I have to think about is whether Mr Lender did enough given what it knew about Mr K.

Given that some of the information Mr K provided was cross-checked and this wasn't contradictory, I don't think that Mr K's credit history in itself ought to have clearly indicated to Mr Lender that its calculation of Mr K's disposable income (and therefore his ability to afford these payments) might have been overoptimistic.

I accept that Mr K says that his actual circumstances are not accurately reflected in the information Mr Lender had. For example, I know that Mr K previously had an accident and it impacted on his mental health. I'm sorry to hear about what Mr K has said and that he's found it difficult to make his payments. But Mr Lender didn't know about this.

Mr K says that consideration should be given to what Mr Lender would have done if it did know about his mental health. I don't think that it would be fair and reasonable for me to expect Mr Lender to have factored in circumstances and information it wasn't aware of. But, in any event, I also think that it would not have been fair and reasonable for Mr Lender to have declined Mr K's application solely on the basis that he had a mental health condition.

Indeed even in circumstances where a lender is aware that a prospective borrower has a mental health condition, it is required to presume that the borrower has the capacity to make a responsible lending decision, unless there are reasons for it to conclude otherwise. So I would have expected Mr Lender to have taken reasonable steps to understand whether Mr K could afford to make his repayments, which it, in any event, did do here.

I've also considered the fact that Mr K did take loan 2 out six weeks or so after loan 1 was repaid. And sometimes repeat borrowing in itself can be an indication that a customer shouldn't be lent to. But as well as it being the case that loan 2 was taken six weeks after loan 1, as I've explained it was also for a lower amount. If Mr K's second loan ran to term he would have been indebted to Mr Lender for around a year, which isn't out of the norm for this kind of lending, or a sign that a borrower is using such lending unsustainably.

Furthermore, while Mr Lender won't have known this at the time of application, Mr K repaid loan 2 early and well ahead of schedule. So Mr K was only indebted to Mr Lender for a short period considering that he had taken out two instalment loans. In any event, by the time of loan 2 I don't think that there was any established pattern in Mr M's borrowing needs, at least from Mr Lender, at this stage.

I accept that Mr K having taken previous loans was a factor that Mr Lender needed to take note of, should Mr K have submitted further loan applications. But I don't think that there was any established pattern in Mr K's borrowing needs when he applied for loan 2. At best, it could argue that the application for loan 2 was at the very beginning of an emerging sign, rather than an established pattern. And most crucially I don't think that Mr K's borrowing history meant that Mr Lender should have declined Mr K's application, notwithstanding what the assessment of affordability showed.

So, while I'm sorry to hear that Mr K has had difficulty repaying these loans, I don't think it would have been reasonable or proportionate for Mr Lender to have requested further information which might have, as Mr K says, shown that Mr K might have difficulty making his payments. Instead, bearing in mind the circumstances here, I think that Mr Lender was reasonably entitled to rely on the information it had gathered and therefore its decision to lend wasn't unreasonable.

As this is the case, I don't think that Mr Lender did anything wrong when deciding to lend to Mr K - it carried out proportionate checks and reasonably relied on what it found out which suggested the loans were affordable.

Overall and having considered everything, I don't think that Mr Lender treated Mr K unfairly or unreasonably when providing him with his loans. And I'm not upholding Mr K's complaint. I appreciate this will be very disappointing for Mr K. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr K's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 19 February 2024.

Jeshen Narayanan
Ombudsman