DRN-4423093

The complaint

Mr A complains that Prodigy Finance LTD trading as Prodigy Finance irresponsibly gave him a fixed sum loan agreement.

What happened

In June 2022, Mr A entered into a fixed sum loan agreement with Prodigy Finance. The purpose of the loan was to pay for the tuition fees for his master's degree. The amount borrowed was $45,000 USD. There was an administration fee added for taking out the loan of $2,250 USD. The interest rate was a variable interest rate which was linked to a benchmark rate used to determine commercial interest rates. The loan was to be repaid in 120 instalments, starting in February 2023, which was six months after when Mr A's course ended.

Mr A made a number of complaints to Prodigy Finance. One was made prior to entering into this loan, which in summary, was that Mr A was unhappy that a previous application he'd made for funding was declined by Prodigy Finance. He said its decision to not lend to him would result in him being unable to pay his tuition fees for the course he had already started.

Following this complaint, Mr A was directed to make a new application by Prodigy Finance as it had explained to him why his previous application had been unsuccessful. In summary, it said this was because Mr A had indicated the course he was on was fully remote – something Prodigy Finance didn't support funding for – and that Mr A hadn't adequately evidenced his ability to financially support himself through his studies.

Mr A submitted a new application stating that his course was not fully remote and he provided evidence of savings that he held. Prodigy Finance accepted that new application. It paid the funds to his college.

Mr A then made two further complaints. The first was that he was unhappy about the administration fee being added to the loan and that interest began to accrue straight away. He said these were not made clear to him and wanted the fee removed and interest to be frozen. Prodigy Finance said both had been set out clearly in the credit agreement he signed and didn't uphold his complaint.

The second complaint Mr A made was that he didn't think Prodigy Finance had acted fairly in accepting his loan application. He said the evidence he'd provided of his savings were stocks and shares account holdings. He said Prodigy Finance's own criteria states these aren't acceptable as proof of savings and therefore the loan should be terminated. He said that he'd later fallen victim to a scam and lost all of these funds. He said he had also failed to find employment following his graduation and could not afford to pay the loan. He said Prodigy Finance had made no attempts to assist him with his financial difficulty.

Prodigy Finance didn't uphold this complaint either. It said that it had completed appropriate checks which showed that the lending was affordable and appropriate. It said that it had provided Mr A with its forbearance process but as Mr A continued to dispute the validity of the loan it wasn't practical to put in place any arrangement until those issues were resolved.

Our investigator didn't recommend the complaint be upheld. He considered that Prodigy Finance had completed reasonable and proportionate affordability checks before approving the loan. He was satisfied that Mr A's stocks and shares had not been a factor in that decision. Lastly, he didn't think Prodigy Finance had acted unfairly towards Mr A.

Mr A didn't agree, so the complaint has been passed to me for 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.

It's clear Mr A feels very strongly about the way Prodigy Finance has treated him. I want to assure him I've carefully considered everything he's said and provided. However, I haven't necessarily commented on each and every point he has made, I've only focussed on what I consider to be the key issues of the complaint. This isn't meant to be discourteous. It simply reflects the informal nature of our service.

The crux of this complaint is that Mr A feels that the loan should not have been granted. He says information he provided about his stocks and shares influenced Prodigy Finance's lending decision and this went against its own lending policy and procedures. He says Prodigy Finance had previously dismissed that same evidence in his previous application for finance. Prodigy Finance says it didn't take that information into account in its lending decision. Having reviewed the available information and evidence, I'm satisfied that it played no material part in the lending decision. But, even if it had, I don't think that would make any difference to the overall outcome I've reached. I'll explain why.

The purpose of the loan was to fund Mr A's master's degree, which he had already started and would be required to pay for whether or not Prodigy Finance agreed to lend to him. I've seen that as part of the application for the loan, Prodigy Finance required Mr A to demonstrate that he would be able to financially support himself whilst studying. The loan was intended to cover the majority of the tuition costs of the course, so Prodigy Finance says its calculations considered whether Mr A had the means to pay the remaining course fees and had enough left over to live on.

Prodigy Finance says that the college Mr A was studying at provided it with estimated figures for living costs. It says these figures were used to work out whether Mr A had enough income or savings to support himself for the duration of the study period. It then asked Mr A for proof of his financial circumstances. Mr A provided a bank statement for a savings account and proof of his investments in a stocks and shares account as well as evidence that he had already paid the college a deposit of £3,750.

Mr A doesn't understand what was different about the new application and the previous one and why Prodigy Finance came to two different lending decisions when the evidence supplied was the same. There appears to be two key factors. The first is that for the first application Mr A appears to have suggested the course operated in a way that Prodigy Finance didn't support funding for, and this was amended for the second application.

The second, and arguably most important, was timing of the applications. I don't doubt that Mr A provided the same financial evidence for both loans. However, by the time the second loan application was approved, Mr A only had around 3 months left before his course finished.

When Prodigy Finance was assessing Mr A's ability to financially support himself while studying, the amount of money he needed to evidence having access to would always be less the closer he was to the end of the course. By the time the second application was accepted, Prodigy Finance was satisfied that the money in Mr A's savings account (excluding all of the funds in his stocks and shares) would be sufficient to support his living costs for the final three months of his studies. For Mr A to have been accepted earlier, he would have needed to demonstrate access to substantially more savings as the time left on the course would have been greater and therefore required greater living costs.

I've seen that Prodigy Finance also completed a credit check on Mr A which showed he held a current account, a telecommunications account and a credit card with a relatively modest credit limit of £500 (the balance of which was £25 at that time). All accounts were showing as up to date, with no signs of financial difficulty. While Mr A's stocks and shares weren't a consideration in the lending decision, the fact it showed Mr A held a value in excess of $67,000 USD in that account and that around 30% of that was held in cash would have also given Prodigy Finance some comfort that Mr A was not in financial difficulty.

Even if I'm wrong and Prodigy Finance did use Mr A's stocks and shares account as part of its affordability assessment, I don't think this makes any difference. This is because he held a large amount of cash in that account, and Mr A provided evidence from the account provider that there was no restriction on Mr A's ability to withdraw those funds. I don't think it would have been unreasonable for Prodigy Finance to have relied on the cash holdings in that account in its affordability assessment as it was effectively the same as if he held them in any other type of savings account.

As repayment of this loan wasn't expected until six months after Mr A's course finished and that it didn't appear Mr A was currently employed, Prodigy Finance needed to take adequate steps to ensure the loan was likely to be affordable to Mr A when payments began to fall due. The lending rules set out by the regulator allow in circumstances such as this for Prodigy Finance to take into account Mr A's expected future income.

Prodigy Finance says it used statistical data provided by Mr A's college (which appears to be a well-established, highly-regarded and prominent University) about employment rates and average salaries for graduates, as well as its own data about past students repayment ability and salaries and other third party data relating to graduate employment and salaries in a similar field. It said that the figure this dataset arrived at was further reduced by around a third to ensure it was reasonably conservative. Based on these figures it said that Mr A would likely be earning enough to be able to afford the loan repayments without difficulty. I've seen no reason in the specific circumstances of this complaint to be concerned about the figures Prodigy Finance used in those calculations.

This is particularly so because Mr A has made no argument or provided evidence to suggest that employment for graduates in his chosen field would yield an insufficient income to repay the loan. Instead, he's argued that his loss of funds to a scam and his inability to get employment are the reasons for his affordability concerns.

Taking all of this into account, I'm satisfied that Prodigy Finance completed reasonable and proportionate affordability checks before lending to Mr A. Further, I'm satisfied there wasn't anything within those checks that ought to have led it to be concerned about the affordability of the loan.

I've also considered whether Prodigy Finance did enough to review Mr A's financial circumstances before the repayments were due to begin. This is because it had based its affordability calculations on income projections, so it needed to take steps to review Mr A's circumstances when payments began. Having done so, I'm satisfied that it has.

I say this because I've seen that Prodigy Finance got in touch with Mr A in August 2022, six months before payments were due start, to tell him what was happening and why. Mr A wanted the payments to start later because he said that he still had an exam left to complete. Prodigy Finance told him the payment date couldn't be changed but to get in touch with them in February 2023, a few weeks before the first payment, if at that time he was in difficulty or had insufficient funds. It explained the forbearance process it had in place if it was required which included offering payment breaks. It said that Mr A would need to provide proof of his financial circumstances at that time if he was unable to meet the loan repayments.

It seems that Mr A didn't ask Prodigy Finance for assistance with any financial difficulties until he raised his latest complaint. In that complaint Mr A notified Prodigy Finance that he had been the victim of a scam and that he lost all of the money in his investment account and that he hadn't been able to find employment. He said for these reasons he couldn't afford to pay the loan. However, he also set out that he believed the loan should be treated as fraudulent because he said Prodigy Finance didn't follow its correct lending process.

Prodigy Finance said it would be inappropriate to discuss a repayment plan with Mr A while he was disputing the validity of the loan itself. I don't agree that was necessarily the most helpful response. I think it could still have discussed a possible payment arrangement, particularly as it had made its position clear to Mr A that it considered the loan to be valid. However, I note that Mr A was also more focussed on trying to prove that Prodigy Finance had acted against its own processes rather than engaging in discussions of repayment.

Prodigy Finance had previously explained to Mr A that in order to approve any payment break or other forbearance measures they would require evidence from him, in the form of bank statements, to demonstrate his inability to repay the loan. I can't see that Mr A has made any attempt to do this. While I think Prodigy Finance could have reminded Mr A of what he needed to do, I don't think that would have made any overall difference to Mr A's financial position.

I say this because Mr A has made no payments towards the loan while his complaints have been ongoing. This would have been the most likely result of any forbearance measures Prodigy Finance may have put in place if Mr A provided sufficient evidence of his inability to repay. Interest would likely have continued to be charged and I wouldn't necessarily have expected Prodigy Finance to have frozen that just because Mr A was currently unemployed.

Therefore, while I think Prodigy Finance could have done a little more to discuss a repayment arrangement earlier, I'm not persuaded Mr A has suffered any material loss as a result of that. I therefore don't think it has acted unfairly towards Mr A. I remind Prodigy Finance of its ongoing obligation to treat Mr A fairly if his financial difficulties continue.

Lastly, Mr A was also unhappy about the administration fee added to the loan and the fact that interest began to accrue as soon as the loan proceeds were paid to the college. He says this wasn't explained to him. I've seen that all of this information was set out in the credit agreement that Mr A received and signed. The administration fee was prominently displayed on the first page of the credit agreement alongside the total charges for taking out the credit. The details of how interest would be calculated and charged was listed under a heading titled: "*Rate of Interest. How we calculate and apply interest*". This explained that interest would accrue from the date payment was made to the college. I therefore think this information was made available to Mr A in a clear way prior to him entering into the agreement.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr A to accept or reject my decision before 29 December 2023.

Tero Hiltunen
Ombudsman