DRN-4426192

The complaint

Mrs N says Progressive Money Limited (PML) irresponsibly lent to her.

What happened

Mrs N took out a loan for £10,000 over 60 months from PML on 12 July 2017. The monthly repayments were £368.51 and the total repayable was £22,110.40. Mrs N settled the loan early in June 2019.

Mrs N says she already had a lot of other debt and was juggling loans and cards to survive financially.

PML says it carried out proportionate checks that evidenced Mrs N had the disposable income to afford the loan. The loan was for debt consolidation and it directly settled balances with five of Mrs N's creditors. It took this into account in its affordability assessment.

Our investigator upheld Mrs N's complaint. He said PML's checks were proportionate, but it did not make a fair lending decision based on the information it gathered.

PML disagreed and asked for an ombudsman's review. It said it is not a debt solution and was not required to clear all Mrs N's debt. It assumed a repayment rate of 3% of her remaining revolving balances which is in line with others in the industry. And there is no prescribed level of disposable income needed to approve a loan. There is also no evidence Mrs N ever struggled to make her repayments. And whilst PML itself had some concerns about affordability initially, once it saw evidence that Mrs N's partner paid the majority of household expenses it was satisfied the loan would be affordable for Mrs N.

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.

The rules and regulations when PML lent to Mrs N required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So PML had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mrs N. In other words, it wasn't enough for PML to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mrs N.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether PML did what it needed to before agreeing to lend to Mrs N. So to reach my conclusion I have considered the following questions:

- did PML complete reasonable and proportionate checks when assessing Mrs N's loan applications to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did PML make a fair lending decision?
- did PML act unfairly or unreasonably in some other way?

I can see PML asked for certain information from Mrs N before it approved the loan. It asked for details of her income, credit commitments and living expenses. And it validated these by obtaining her recent bank statements and payslips. It also checked her credit file to understand her existing monthly credit commitments and credit history. It further investigated its findings on calls with Mrs N prior to approving the loan. It asked about the purpose of the loan which was debt consolidation and it took details of the five accounts Mrs N wanted it to settle directly.

I think these checks were proportionate but I am not persuaded PML made a fair lending decision. I'll explain why.

When Mrs N applied for this loan she already had around £48,000 of unsecured debt. This loan allowed her to repay around £9,750 of this debt across five accounts. But to do so she took out an additional £22,110 of borrowing. After consolidating some of her debts, she would still need to make monthly repayments to her creditors of around £1,700 – a high proportion of her net income (£2,977). At this level I think PML ought to have realised there was a risk Mrs N would not be able to sustainably make her repayments over a 60-month term. As the industry knows, having to spend a large percentage of net income on credit repayments is often a predictor of pending financial difficulties.
PML disputes how much it needed to allocate for Mrs N's credit card repayments, saying it used 3%. This service allocates 5% of outstanding balance to allow for repayment of interest and capital and to ensure there is no risk of a consumer falling into persistent debt. Arguably, this can still lead to underestimating what a consumer needs to pay ongoing if their credit utilisation is low. Here it was around 50% (after the consolidation) so Mrs N could easily have needed to pay more than £421.65 a month to sustainably repay her remaining credit card accounts which had at the time a combined balance of £8,433.

So, in the round, I don't think PML had the assurances it needed to conclude there was no risk that lending to Mrs N would not cause her financial harm.

PML also argues that Mrs N did not contact it to say she was struggling to repay the loan and she settled it early in June 2019. But it does not know how she did this, and whether she borrowed to repay or suffered some other adverse financial consequences, so this does not change my conclusion.

It follows I find PML was wrong to give this loan to Mrs N. I have not found any evidence it acted unfairly towards Mrs N in some other way.

Putting things right

I think it's fair that Mrs N should only have to repay the money she borrowed and had the use of. So I think PML should refund all of the interest and charges Mrs N paid on this loan.

So PML must:

- Add up the total amount of money Mrs N received as a result of having been given this loan. The repayments Mrs N made should be deducted from this amount.

- As this will result in Mrs N having paid more than she received, any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement).

- Remove any negative information recorded on Mrs N's credit file relating to this loan.

*HM Revenue & Customs requires PML to take off tax from this interest. PML must give Mrs N a certificate showing how much tax it's taken off if she asks for one.

My final decision

I am upholding Mrs N's complaint. Progressive Money Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs N to accept or reject my decision before 20 February 2024.

Rebecca Connelley
Ombudsman