

The complaint

Miss M and Mr T, through a representative, say Everyday Lending Limited, trading as Everyday Loans, irresponsibly lent to them.

What happened

Miss M and Mr T took out a joint loan for £8,900 in October 2021. The term was 60 months, the monthly repayments were £326.77 and the total repayable was £19,606.20.

After Miss M and Mr T's relationship ended, Miss M says she contacted ELL to try to agree a reduced repayment plan but it would not help. Miss M says the loan was never affordable for them and also that ELL has provided incorrect information regarding the interest owed.

Our investigator upheld Miss M and Mr T's complaint. He said ELL's checks were proportionate but did not show the loan would be affordable.

ELL disagreed and asked for an ombudsman's review. It said the investigator had not taken into account the full reduction in the applicants' other credit repayments (as the loan was for debt consolidation) so after taking on this loan Miss M and Mr T would have £110 disposable income each month. It deemed this to be sufficient to conclude the lending was affordable, saying it had already included a buffer for unexpected costs.

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.

The rules and regulations when ELL lent to Miss M and Mr T required it to carry out a reasonable and proportionate assessment of whether they could afford to repay what they 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 ELL had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Miss M and Mr T. In other words, it wasn't enough for ELL to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss M and Mr T.

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 reasonable and proportionate checks 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 ELL did what it needed to before agreeing to lend to Miss M and Mr T. So to reach my conclusion I have considered the following questions:

- did ELL complete reasonable and proportionate checks when assessing Miss M and Mr T's loan application to satisfy itself that they would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did ELL make a fair lending decision?
- did ELL act unfairly or unreasonably in some other way?

I can see ELL asked for some information from Miss M and Mr T before it approved the loan. It asked for details of their income and checked this using copies of their recent bank statements. It completed employment checks and understood they had one dependent. It asked about their housing costs and again checked this on bank statements. It estimated their living costs using national statistics and added a buffer to cover unexpected costs. It also checked Miss M's credit file to understand her existing monthly credit commitments and credit history. It seems ELL also checked Mr T's file but only submitted Miss M's as she initiated the complaint, but having sight of this check is not material to the outcome of the complaint given my findings. It asked about the purpose of the loan which was debt consolidation and where possible it settled these debts directly (for nine of their creditors). From these checks combined ELL concluded Miss M and Mr T would have £110 disposable monthly income and so could afford the loan.

I am satisfied ELL's checks were proportionate but I do not find it made a fair lending decision based on the information it gathered. I'll explain why.

I don't think that £110 was a reasonable level of monthly disposable income for a couple with one dependent given the term of the loan. Over a 60-month term I find it was most likely there would be a number of seasonal and unexpected expenses (in excess of the allowed buffer) that would mean Miss M and Mr T were unable to sustainably repay this loan and would need to either borrow to repay or suffer some other financial harm. ELL argues the regulator has not set a minimum level of disposable income. I accept this, and I am aware ELL typically uses £50. But this is for a sole applicant and in the circumstances of this case it needed to consider a suitable level for a couple with one dependent over a five-year term. I disagree that £110 was enough.

It follows I think ELL was wrong to lend to Miss M and Mr T.

Did ELL act unfairly or unreasonably in some other way?

I don't find it did. Miss M has told us when she contacted ELL in August to explain she and Mr T had split up and so needed a reduced repayment it offered no support. I have listened to the call between Miss M and ELL on 31 August 2022. But she did not ask for a reduced

payment plan: she explained the split; that her ex-partner had called the previous day with details for his 50% of the monthly repayment; and she wanted to do the same. She gave new bank details and moved her payment date to the 10th of the month. ELL facilitated this request and confirmed her share of the payment would be £163.39. At no point did Miss M say this would not be affordable for her.

Miss M also raised that ELL seemed to have incorrectly calculated the interest owed, but as I am instructing ELL to refund/remove all interest I need not comment further on this point.

Putting things right

It is reasonable that Miss M and Mr T repay the capital they borrowed as they have had the benefit of that money. But they have paid interest and charges on a loan that should not have been given.

So ELL should:

- Refund any interest and charges paid and remove all future interest and charges. Treat all repayments paid as repayments of the capital.
- If this results in any overpayment this should be refunded to Miss M and Mr T along with 8% simple interest (calculated from the date the overpayments were made to the date of settlement)*.
- If this results in there being an outstanding capital balance ELL must agree an affordable repayment plan with Miss M and Mr T.
- Remove any adverse information from Miss M and Mr T's credit files once any outstanding capital balance has been repaid.

*HM Revenue & Customs requires ELL to take off tax from this interest. ELL must give Miss M and Mr T a certificate showing how much tax it's taken off if he asks for one. If it intends to apply the refund to reduce any outstanding capital balance it must do so after deducting the tax.

My final decision

I am upholding Miss M and Mr T's complaint. Everyday Lending Limited, trading as Everyday Loans, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M and Mr T to accept or reject my decision before 20 March 2024.

Rebecca Connelley
Ombudsman