

The complaint

Miss H complains PDL Finance Limited trading as Mr Lender (“Mr Lender”) gave her a loan without carrying out sufficient checks. Had better checks been made it would’ve discovered Miss H had a low credit score and that she was reliant on credit.

What happened

Miss H was granted a loan of £300 on 22 July 2022. She was due to make six monthly payments of decreasing amounts. Her largest repayment was £117.20 and her smallest was £62.40. Miss H repaid the loan on 26 January 2023.

Following Miss H’s complaint about the sale of the loan, Mr Lender wrote to her to explain that it wasn’t going to uphold the complaint because the checks it carried out showed the loan was affordable. Unhappy with this response, Miss H referred the complaint to the Financial Ombudsman.

An investigator then considered the complaint and she didn’t uphold it because Mr Lender’s checks went far enough. She also said that Mr Lender wasn’t aware of Miss H’s mental health issues and so couldn’t take account of it.

Miss H didn’t agree saying she had another complaint at the Financial Ombudsman about unaffordable lending that was taken only weeks before the Mr Lender loan and that other complaint has been upheld. As no agreement has been reached, the case has been passed to me to issue 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.

We’ve set out our general approach to complaints about this type of lending - including all the relevant rules, guidance and good industry practice - on our website. And I’ve used that to help me decide this complaint.

Mr Lender had to assess the lending to check if Miss H could afford to pay back the amount she’d borrowed, without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Mr Lender’s checks could’ve taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss H’s income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Mr Lender should have done more to establish that any lending was sustainable for Miss H. These factors include:

- Miss H having a low income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- The amounts to be repaid being especially high (reflecting that it could be more

- difficult to meet a higher repayment from a particular level of income);
- Miss H having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Miss H coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Miss H. The investigator didn't think this applied to Miss H's complaint and I agree, considering only one loan was advanced.

Mr Lender was required to establish whether Miss H could *sustainably* repay the loan – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Miss H was able to repay her loan sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Miss H's complaint.

Miss H declared that her monthly income was £1,700 and as this was the first loan, I think it was proportionate for Mr Lender to have relied on the income figure given to it by Miss H.

Miss H said she lived at home with parent(s) and she had monthly outgoings of £928, which was across a number of different categories including food, transport and other credit commitments to name a few. Based solely on the income and expenditure information Mr Lender gathered, as well as what it knew about Miss H, it was reasonable of it to have concluded she could afford the largest repayment for the loan.

Mr Lender carried out a credit search and it has provided the Financial Ombudsman with a summary of the results it received from the credit reference agency. I want to add that, although Mr Lender carried out a credit search, there isn't a regulatory requirement to do one, let alone one to a specific standard.

Having looked at the credit results, there wasn't anything, in my view, that would've led Mr Lender to have carried out further checks. It knew Miss H wasn't insolvent either through an Individual Voluntary Arrangement, bankruptcy or a County Court Judgement within the three years preceding the loan.

In addition, it was also told that Miss H had one outstanding "AAI" loan which is another name for a payday loan. While Mr Lender was aware of one other outstanding payday loan, I don't think that would've been enough on its own, when the rest of the checks showed the loan to be affordable to either have prompted it to have declined the application or to have conducted further checks.

Miss H says she was in a vulnerable position at the time she took the loan because she may not have been in the right frame of mind – and I am sorry to hear about this and I do hope things have improved for her. I have thought about the relevant industry code and guidance which can be found in the Consumer Credit Sourcebook, section 2.10.

I have considered whether Mr Lender has complied with it. And reviewing the relevant sections, together with the evidence I have been sent by Mr Lender, I do not have enough to be able to make a finding that it made an error when it processed Miss H's application.

A firm when granting a consumer credit '*...should consider the customer's individual circumstances.*' But Mr Lender, could only act if it knew, or it ought reasonably to have

known that at the time the loan was requested, that Miss H may not have been in the right frame of mind.

The regulations listed above, list a number of behaviour indicators which, if the lender observes any, may lead to the firm having reasonable grounds to suspect that a customer may have some form of limitation. These can be found in CONC 2.10.8 and are a guide – but I've not set these out here. Having reviewed the sorts of flags and behavioural indicators which are listed in CONC 2.10.8 then I have no evidence to indicate that Mr Lender knew, or reasonably suspected, that Miss H may have been having difficulties at the time.

Given what I have to hand I can't conclude that Mr Lender may have made an error when it processed the application it received from Miss H. It's also worth saying that even if Mr Lender did know about Miss H's mental health problems that wouldn't have automatically led it to decline the application.

Overall, it was reasonable for Mr Lender to have relied on the information Miss H provided about her income and expenditure as well as the credit check results which showed she had sufficient disposable income to afford the repayments. Finally, there also wasn't anything else to suggest that Miss H was currently having financial difficulties or that the loan repayments would be unsustainable for her. It therefore follows that I can't uphold Miss H's complaint about the loan.

I've also thought about what Miss H has told us about her other complaint. It's my role to consider the individual circumstances of this complaint and what that looks like in relation to a proportionate check.

So, it's entirely possible, that two cases that appear similar where credit is advanced close together can lead to different outcomes – there is nothing unusual about that. I say that because it will depend on the information that each lender was told and the types of checks that each lender carried out. In the circumstances of this complaint, I'm satisfied Mr Lender conducted proportionate checks, which demonstrated that Miss H would likely be able to afford the loan repayments she was committed to making.

My final decision

For the reasons I've outlined above, I do not uphold Miss H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 19 March 2024.

Robert Walker
Ombudsman