DRN-4712859

The complaint

Mrs A complains that Progressive Money Limited ("PML") irresponsibly agreed a loan for her.

Mrs A brought her complaint to us via a representative but I will refer to her throughout for simplicity.

What happened

PML agreed a loan of £10,000 for Mrs A in December 2017. The total amount owed was £21,638 to be repaid at £451 a month over 48 months (figures rounded).

I understand that Mrs A met her repayments on time, bar one, and fully repaid the loan in August 2019.

Mrs A complained to PML that the loan was unaffordable and that she was reliant on credit when it was agreed. She said she struggled to meet the repayments and had to borrow to do so. Mrs A said that she eventually took out a loan secured against her home in order to pay off the loan.

PML didn't uphold Mrs A's complaint. It said that it carried out a detailed affordability check before lending to her and found the loan would be affordable. Mrs A wanted to consolidate her existing loans which she'd recently taken out due to family circumstances and there were no indications that she'd struggled to meet her repayments.

Mrs A referred her complaint to us. One of our investigators looked into the complaint and recommended that it be upheld. They concluded that PML didn't act responsibly by lending to Mrs A at a time when she was having difficulty managing her finances.

PML didn't agree with this recommendation and asked for the complaint to come to an ombudsman to review and it came to me. I issued a provisional decision on 27 February 2024 which explained why I thought Mrs A's complaint should succeed and shared the information I'd relied on with both parties. Mrs A accepted my provisional decision and I haven't had a response from PML.

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.

Having reviewed everything again and having no further comments or new information to consider, I see no reason to depart from my provisional conclusions. I'll set out my reasons again for upholding Mrs A's complaint in this final decision.

As before, when making my decision I've had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as PML, need to abide by. PML will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

The regulations at the time stated that a lender should take into account more than assessing the borrower's ability to repay the credit. As per CONC 5.3.1G, a lender needed to assess a borrower's ability to meet the repayments in a sustainable manner. In other words, PML needed to check that Mrs A could meet her repayments out of her usual means for the term of the loan, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and to Mrs A's circumstances.

The overarching requirement was that PML needed to pay due regard to Mrs A's interests and treat her fairly. CONC gave an example of contravening this as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.

The questions I've considered are whether or not PML carried out a proportionate affordability check before lending to Mrs A? If not, what would a proportionate check have shown? Did the checks PML carry out show anything of concern and ultimately, did PML treat Mrs A fairly and with due regard to her interests when it offered her the loan?

PML provided the information it relied on when assessing Mrs A's application which included its income and expenditure records, information from her credit file, bank statements for her current account for the period covering 20 November to 5 December 2017 and her payslips for the previous three months. PML said it discussed Mrs A's application in detail with her over the phone and provided relevant telephone records.

Mrs A shared her bank statements and her credit file with us.

I think it's fair to say that PML gathered sufficient information to carry out a reasonable affordability assessment and it discussed the purpose of the loan in detail with Mrs A. I've reviewed everything to consider whether PML made a fair lending decision on this occasion.

Mrs A told PML that she was earning around £2,700 to £2,800 a month plus around £250 from a second job. She also mentioned that she was in receipt of child benefit of around £180 a month, though two of her children would be over 16 years of age before the loan term ended. PML verified this from Mrs A's wage slips for several months prior to the loan. I've reviewed the payslips and the bank statements and it seems to me that Mrs A earned less than £3,000 on average in the months prior to the loan. PML recorded Mrs A's income as £3,441 and I am unsure as to how it arrived at that figure.

PML recorded that Mrs A's monthly expenses came to £1,416 including her mortgage payment of £663. PML discussed Mrs A's loans in detail with her. Mrs A was paying £614 on a second mortgage and £130 on car finance. PML estimated that Mrs A was spending about £400 a month repaying her credit card debt. Mrs A was also spending around £1,400 a month repaying short term lenders with an outstanding combined loan balance of around £9,000. Clearly, Mrs A was overindebted spending a significant amount of her income on her existing debts.

The purpose of the loan was debt consolidation. The loan would clear Mrs A's short term loans and reduce her monthly repayments on these from £1,400 to £451 for PML's loan repayment. The short term lenders were paid directly by PML and an amount of just over £1,000 was paid to Mrs A.

While the loan may have reduced Mrs A's monthly debt repayments in the short term, she was still left with her second mortgage, her car finance and her credit card repayments which together amounted to £1,144. Agreeing this loan committed Mrs A to spending around £1,600 on debt each month. As mentioned, Mrs A also held a joint mortgage with repayments of £663. So Mrs A was still left in a position where she was spending a significant amount of her income on debt.

As mentioned, PML estimated that Mrs A's monthly expenses came to around £1,416 a month including her mortgage, so altogether she might spend around £3,000 a month going forwards. Bearing in mind that Mrs A had dependents, I think there was a high risk that she wouldn't manage to sustainably meet her repayments for the loan each month for four years. There was little slack in her budget, given how much she'd continue to spend on her debt repayments. It doesn't seem likely to me that Mrs A was going to be able to meet her repayments for the loan without borrowing again from elsewhere and providing further credit to her at this point simply prolonged her indebtedness.

Altogether, I don't think PML made a fair lending decision here and was irresponsible to enter into the agreement.

PML said that Mrs A's dependency on high cost short term credit was due to a significant life event rather than a systemic issue with Mrs A's finances. It said that its loan enabled Mrs A to save money on her monthly debt repayments and ended her dependency on short term lending. It also said that the fact that Mrs A met all bar one of her repayments on time and repaid the loan early shows that it was affordable.

In other circumstances, it might have been reasonable of PML to accept what Mrs A said about her financial situation and to assume that this meant she didn't have an ongoing shortfall in her income. It might also be true that lending to Mrs A saved her some money each month. However, in this case Mrs A's level of ongoing debts meant that the loan wasn't likely to be affordable for her in a sustainable manner and PML ought to have realised this and declined to lend to her on this occasion. I can see from Mrs A's credit file that she continued to borrow from high cost lenders, taking out a £3,500 loan in January 2018, a £1,200 loan in February, and over £2,500 across four loans in March and so on. Mrs A fully repaid PML's loan the day after taking out a £71,000 secured loan on her property.

Putting things right

I've concluded that PML was irresponsible to have agreed a loan for Mrs A in December 2017. I think it's fair that she repays the capital amount she borrowed as she's had the use of it but I don't think it's fair that she pays any interest, fees or premiums associated with the loan.

To put things right for Mrs A, PML should:

a) refund all payments that Mrs A made above the capital amount she borrowed; and

b) add 8% simple interest per annum** on these overpayments from the date they were paid until the date this complaint is settled; and

c) remove any adverse information about this loan from Mrs A's credit file.

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

My final decision

For the reasons I've explained above I am upholding Mrs A's complaint about Progressive Money Limited and it should now put things right for her as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 26 April 2024.

Michelle Boundy
Ombudsman