

The complaint

Ms M complained that Salary Finance Limited ("Salary Finance") irresponsibly granted her three personal loans (in January 2019, May 2021, and February 2022) that she couldn't afford to repay.

What happened

Ms M took out the first loan in January 2019. The amount was £3,000, and the monthly payment was £102.49 over a 36-month term. The purpose was debt consolidation. Ms M then borrowed an additional £2,400.00 in May 2021 for debt consolidation, bringing her total borrowing at that point to £3,280.54. The monthly payment after that was £74.27, over a 60-month term. In February 2022, Ms M took a further top up loan of £1,500, bringing her total borrowing at that point to £4,404.18. The monthly payment on that was £101.19, again over a 60-month term.

Ms M said Salary Finance should not have given her these loans, as it should have seen from her income and expenditure, and her reliance on payday loans, that they were unaffordable. She said that she had over 60 payday loans and her bank account was a basic account for those with poor credit (so had no overdraft facility). Ms M further said that she is in financial difficulty and has had mental health problems which have affected her finances, and in addition her employment options have been limited because of her credit record. Ms M would like the loans to be written off and her credit record updated accordingly.

Ms M complained to Salary Finance about all this. Salary Finance said it had carried out the appropriate checks before granting the loans, and it told Ms M that it did not uphold her complaint. It also said that it had had no notification that Ms M was in any financial difficulty until January 2023.

Ms M then brought her complaint to this service. Our investigator looked into it but didn't think it should be upheld. Ms M didn't agree, and asked for it to be reviewed by an ombudsman.

I issued my provisional decision in May 2024, in which I explained why I proposed to uphold Ms M's complaint in part. Salary Finance responded to say that it accepted my conclusions. Ms M made some additional comments, which I've set out below.

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 considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided to uphold Ms M's complaint in part. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Salary Finance completed reasonable and proportionate checks to satisfy itself that Ms M would be able to make the repayments on each loan account in a sustainable way.

I set out my reasoning in my provisional decision as follows:

"Salary Finance sent in copies of the information it used to assess Ms M's loan applications, along with copies of the loan agreements. It said that, for all of the loans, it took account of the information provided by Ms M, along with details of her credit commitments taken from credit reference agency records, and it estimated her living expenses using data from the Office of National Statistics. I also note that the credit agreements indicate that the loan payments were made by salary deduction via Ms M's employer. Unfortunately Ms M was unable to send in copies of her bank statements for the periods when the loans were granted.

I've looked at each loan in turn.

First loan – January 2019

Salary Finance said that Ms M stated that her annual income was £21,460 before tax, and it verified a monthly income of £1,454.87 after tax.

I have more detailed information about this loan application than about the later ones. The credit reference information that Salary Finance sent in showed that Ms M had had eight payday loans, of which three were active and in default at the time of the loan application. I can also see that a County Court Judgment (CCJ) for £1,410 had been registered against Ms M, although I don't have the date for this. The level of Ms M's unsecured debt was just over £5,900.

Salary Finance said that Ms M had mortgage payments totalling £510 each month, and other monthly credit commitments of £333.44 (this amount represented payments on four personal loans and two credit cards). Salary Finance's estimate of Ms M's monthly living costs was £500. Ms M's total outgoings were therefore £1,333.44, against her income of £1,454.87, leaving £111.43. The new loan payment was £102.49, leaving a disposable income of £8.94 each month.

From this I'm not satisfied that Salary Finance carried out reasonable and proportionate checks before granting the loan. I think the number of personal loans and payday loans showing on Ms M's credit record, and the registration of the CCJ, should reasonably have prompted Salary Finance to carry out more detailed checks on Ms M's income and expenditure.

I accept that the purpose of the loan was debt consolidation, but I have no information on what debts Ms M planned to pay off, and therefore how Ms M's outgoings might have changed. I also accept that, in the absence of Ms M's bank statements from the time, I can't obtain a full picture of her finances. But, on balance, it seems to me that Ms M was already showing some reliance on payday loans, which suggests that she was struggling to meet her commitments. Although the new loan was intended to pay off some of her debts, I don't think this would've reduced her outgoings substantially, and the small amount of disposable income Ms M was left with each month didn't allow for any unexpected bills. So I'm not satisfied that the loan payments were likely to be sustainable.

Taking all this into account I don't think Salary Finance acted fairly in granting this loan, and therefore I propose to uphold this part of Ms M's complaint.

Second loan – May 2021

Salary Finance hasn't provided as much detail about Ms M's circumstances in May 2021, but it told us that it recorded Ms M's monthly income after tax as £1,439.19. Her mortgage costs were £520, her other credit commitments were £316.89, and her estimated living costs were £524.90. This left £77.40 each month. The new loan payment was £74.27, leaving a disposable income of £3.13.

Again, I'm not satisfied that Salary Finance carried out reasonable and proportionate checks before granting the loan. Ms M's income had reduced slightly, but her credit commitments were at a similar level to the first loan, and I think the low level of disposable income Ms M would have had should reasonably have prompted Salary Finance to carry out more detailed checks on her income and expenditure.

As before, I accept that the purpose of this loan also was debt consolidation, but again I have no information on what debts Ms M planned to pay off, and therefore how Ms M's outgoings might have changed. Again, I don't have Ms M's bank statements from the time, so I can't obtain a full picture of her finances.

However, Ms M's credit commitments were at a similar level to when she took the first loan. And Ms M has said that she had a large number of payday loans, and Salary Finance has acknowledged the existence of a number of these on her credit record. So again it looks as though she was continuing to struggle to meet her commitments. As before, although the new loan was intended to pay off some of her debts, I don't think this would've reduced her outgoings substantially, and the small amount of disposable income Ms M was left with each month didn't allow for any unexpected bills. So again I'm not satisfied that the loan payments were likely to be sustainable.

Taking all this into account I don't think Salary Finance acted fairly in granting this loan, and therefore I propose to uphold this part of Ms M's complaint also.

Third loan – February 2022

Again, Salary Finance hasn't provided as much detail about Ms M's circumstances in February 2022, but it told us that it recorded Ms M's monthly income after tax as an unchanged amount of £1,439.19. Her mortgage costs had gone down to £398. Ms M's other credit commitments were £288.64, and her estimated living costs were unchanged at £524.90. This left £227.65 each month. The new loan payment was £101.19, leaving a disposable income of £126.46.

As before, I'm not satisfied that Salary Finance carried out reasonable and proportionate checks before granting the loan. Although Ms M's circumstances had improved, I think the presence of a number of payday loans on Ms M's credit history should reasonably have prompted Salary Finance to carry out more detailed checks on her income and expenditure.

The purpose of this loan also was debt consolidation, but again I have no information on what debts Ms M planned to pay off, and therefore how Ms M's outgoings might have changed. And again, as I don't have Ms M's bank statements from the time, I can't obtain a full picture of her finances.

However, in this case, Ms M's outgoings on her mortgage and her other credit commitments had reduced, so her overall financial situation had improved. I think there was enough disposable income left to enable Ms M to make the loan repayments sustainably. So I don't think Salary Finance acted unfairly in granting the loan and therefore I don't uphold this element of Ms M's complaint.

In summary, I am proposing to uphold Ms M's complaint about the first two loans, but not her complaint about the third loan."

As I noted above, Salary Finance responded to my provisional decision to say that it accepted my conclusions.

Ms M said she thought the third loan hadn't been considered properly. She said that it was a top-up loan so was creating an additional cost. Also, Salary Finance hadn't honoured the settlement figure it had given her, and initially refused to accept it had received payment. It then ignored messages and didn't respond to emails within the timeframes given. It then passed the loan to a debt collector, but didn't take account of her vulnerabilities, which it knew about.

I've thought very carefully about what Ms M has said, and I do understand that she has had a very difficult time.

In Ms M's original complaint to us, she complained that the loans had been granted irresponsibly, and this is what our investigator, and then I, considered. I can see from the copy of the final response letter that Salary Finance sent in, that Ms M had raised other concerns with it about the issue of a settlement figure on the third loan. (From later emails it looks as though this final loan has now been repaid.) Salary Finance answered Ms M's concerns in its final response, and as Ms M did not raise these particular issues with this service – and Salary Finance has not had the opportunity to provide evidence or comment on them - I cannot now consider them as part of this complaint. That said, the relevant Financial Conduct Authority rules require businesses to treat customers in arrears with forbearance and due consideration, so no doubt Salary Finance will ensure it has met these requirements in Ms M's case.

Otherwise, I have no new information about Ms M's financial position, so I have no reason to change my conclusions about whether Salary Finance acted fairly in granting the three loans. So I am upholding Ms M's complaint about the first two loans, but not her complaint about the third loan.

Putting things right

I think it's fair and reasonable for Ms M to be responsible for the capital she borrowed in January 2019 and May 2021, but she has paid interest and charges on two loans that shouldn't have been provided to her, and Salary Finance should put this right.

It should:

- Remove all interest, fees and charges applied to each loan from the outset. The payments Ms M made should be deducted from the new starting balance – the amount originally lent in each case.
- Once all adjustments have been made, the overpayments should be refunded to Ms M, together with interest at 8% simple a year* from the date they were made to the date of settlement.
- Salary Finance should remove any adverse information it has recorded on Ms M's

credit file in relation to these loans.

*HM Revenue & Customs requires Salary Finance to deduct tax from any award of interest. It must give Ms M a certificate showing how much tax has been taken off if she asks for one.

My final decision

For the reasons I've explained, I've decided to uphold Ms M's complaint about the first two loans, and to require Salary Finance Limited to compensate her as described above. I don't uphold Ms M's complaint about the third loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 26 August 2024.

Jan Ferrari
Ombudsman