

complaint

Mr S has complained about the affordability of loans he took out with Microcredit Limited. He also says the interest and charges were extortionate.

background

Mr S took out a number of payday loans with Microcredit between December 2011 and April 2012. He repaid all of these except the last one, and the debt was sold on to a third party. As of 1 June 2015, his balance stood at:

Principal	£450
Interest	£625
Penalty charge	£25
Second penalty charge	£55
Attempt fees	£640
Debt collection fee	£100

When Mr S referred his complaint to this service, our adjudicator recommended that it should be upheld, as she was satisfied that the loans were unaffordable.

The complaint has now been passed to me for my final decision.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I have seen no evidence at all that Microcredit conducted affordability checks. Had it done so, it would have been apparent that he could not afford the loans. His joint disposable income (with his partner) is £440, but this does not take into account his credit card or other loan repayments. His repayments to Microcredit were higher than the £440, let alone what his disposable income would have been taking into account his other debt repayments.

Further, it is clear that Mr S was in a cycle of borrowing, as he would take out a new loan almost immediately after paying back another. To lend in these circumstances is contrary to the OFT's Irresponsible Lending Guidance.

I also agree that the 'attempt' fees, as shown in the table above, are particularly worrying. It would have become clear quickly that Mr S did not have the money and the attempts would likely continue to fail. It was therefore unfair, in such circumstances, to allow these attempts and resulting charges to continue.

As it is clear to me that the loans should not have been granted, Microcredit must refund all of the interest and charges. It must also ensure all reference to the loans is removed from Mr S's credit file.

Not only did this lending cause Mr S distress and inconvenience, it was exacerbated by not sending him a final response letter or making any attempt to resolve matters. I consider £150 compensation appropriate to address this.

my final decision

It is my final decision to uphold this complaint. I require Microcredit Limited to:

- a) refund all interest and charges for the loans from 19 December 2011 onwards, adding 8% simple interest per annum, from the date of each payment to the date of settlement;
- b) seek to ensure that any interest and charges outstanding with the third party debt purchaser are written off, and if not, settle these itself;
- c) remove all reference to each of the loans from Mr S's credit file; and
- d) pay him £150 compensation for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr S to accept or reject my decision before 30 July 2015.

Elspeth Wood
ombudsman