

complaint

Mr M complains that Instant Cash Loans Limited (trading as PaydayUK) lent him money that he couldn't afford to repay.

background

PaydayUK gave Mr M one payday loan for £500 in February 2017 followed by an instalment loan for £2,000 in the same month. He was due to repay the second loan by monthly instalments of just over £308 each.

Mr M says that he had to borrow more money each month to keep up with his commitments. He says his credit report would've shown late payments and arrears. Mr M points out PaydayUK had recently declined a couple of loan applications.

The adjudicator didn't recommend that Mr M's complaint be upheld. He was satisfied that PaydayUK asked Mr M about his income and outgoings and carried out a credit check. The adjudicator thought the checks went far enough before agreeing loan one.

The adjudicator thought that PaydayUK should've asked about Mr M's other short term lending commitments before agreeing loan two. However, even if it had done this, the adjudicator thought loan two would've still appeared affordable for Mr M.

Mr M disagrees with the adjudicator's recommendation and has asked that we consider his bank statements. Mr M says he had a considerable amount of outstanding credit card, catalogue and short term lending debt. He also says that his rent was £645 each month and that PaydayUK should've taken account of this.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

PaydayUK was required to lend responsibly. It needed to carry out checks to decide whether Mr M could afford to pay the loans back. These checks needed to be proportionate to things such as the amount to be repaid, the length of the agreement and any borrowing history. But there wasn't a set list of checks it had to do.

loan one

When Mr M asked for loan one, PaydayUK recorded his monthly income to be £1,900 with outgoings of around £850. It also carried out credit checks that don't appear to have identified any particular areas of concern such as defaults or County Court Judgments.

I think PaydayUK carried out a proportionate check and based on the results, it looked as though Mr M could afford to repay loan one.

loan two

Mr M repaid loan one in full and then immediately asked to borrow £2,000. He was due to repay loan two over 12 months at about £308 each month. Again, PaydayUK has given us evidence that it asked Mr M for details about his monthly net income and expenditure.

Given the fact that Mr M's monthly repayments represented a fairly modest proportion of his declared monthly income of £2,041, I wouldn't usually have expected PaydayUK's checks to go further than they did. However, as Mr M was committing to repay the loan over 12 months and his declared credit commitments had dropped by about £500 within the space of a few weeks, I agree that PaydayUK should've carried out some more checks. I think it would've been proportionate to expect PaydayUK to ask about Mr M's other short term lending commitments.

Just because I don't consider a lender carried out adequate checks doesn't necessarily mean that I must uphold the complaint. I would need to be satisfied that what I consider to have been proportionate checks would've shown PaydayUK that Mr M couldn't afford to repay the loan in a sustainable way – that is without borrowing further.

Even if PaydayUK had asked Mr M about his short term credit commitments as well as his other regular outgoings, I don't think it would've changed the decision to lend. This is because Mr M had repaid most of his other short term loans either shortly before or on the day that he took out loan two. So PaydayUK wouldn't have had to include the other loans as part of its affordability assessment.

Mr M had two ongoing short term lending commitments at the time that he applied for loan two. But even if I allow for these commitments, it would've still appeared to PaydayUK that Mr M could afford the repayments on loan two.

I appreciate that Mr M says he was due to make monthly rent payments of £645 and that PaydayUK should've taken account of this. But I'm satisfied that PaydayUK asked Mr M to include details of his rent or mortgage as part of each loan application. Mr M didn't include any rent payments for either loan. So I can't reasonably say that PaydayUK should've included living costs that Mr M didn't disclose.

Although Mr M took on more payday loans shortly after taking out loan two, PaydayUK wouldn't have been aware of this.

I wouldn't have expected PaydayUK to go as far as independently verifying the information Mr M by asking to see evidence such as bills or bank statements. This means PaydayUK couldn't have known about Mr M's gambling transactions unless he told it about them.

I know that PaydayUK turned down some earlier loan applications but I don't think I can interfere in decisions that it may have reached for a variety of commercial reasons possibly unrelated to Mr M's particular circumstances at the time.

Overall I don't think PaydayUK was wrong to lend to Mr M. So I don't require it to pay him any compensation. I'm sorry that my decision is likely to disappoint Mr M.

my final decision

My decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 9 September 2018.

Gemma Bowen
ombudsman