

complaint

Mr N complains that Everyday Lending Limited (“ELL”) lent to him in an irresponsible manner.

background

The background to this complaint was set out in the provisional decision I issued in September 2020. An extract from this is attached and forms part of this final decision, so I will not repeat that information here.

In my provisional decision I set out why I didn’t think the complaint should be upheld. I invited both parties to let me have any further comments and evidence. Neither Mr N nor ELL have provided us with anything more.

my findings

I’ve once more considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint. Given that neither party has provided me with any new evidence or further comments I see no reason to alter the conclusions I reached in my provisional decision.

So I confirm my provisional decision that the evidence I have seen doesn’t suggest that ELL was wrong to give this loan to Mr N. It follows that I don’t uphold his complaint.

my final decision

For the reasons given above, and in my provisional decision, I don’t uphold the complaint or make any award against Everyday Lending Limited.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr N to accept or reject my decision before 22 November 2020.

Paul Reilly
ombudsman

EXTRACT FROM PROVISIONAL DECISION

complaint

Mr N complains that Everyday Lending Limited (“ELL”) lent to him in an irresponsible manner.

background

Mr N was given a single loan by ELL. He borrowed £1,500 in October 2016 and agreed to repay the loan in 24 monthly instalments. Mr N faced some difficulties making his repayments but ultimately he repaid the loan earlier than agreed, in May 2017.

Mr N's complaint has been assessed by one of our investigators. She thought that the checks ELL had done were proportionate. But she didn't think ELL had fairly interpreted the information those checks had shown. So she didn't think ELL should have agreed to give the loan to Mr N, and asked it to pay him some compensation.

ELL didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide.

my provisional findings

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr N's complaint.

The rules and regulations at the time ELL gave this loan to Mr N required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so ELL had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr N. In practice this meant that ELL had to ensure that making the repayments wouldn't cause Mr N undue difficulty or adverse consequences. In other words, it wasn't enough for ELL to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr N.

Checks also had to be “proportionate” to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether ELL did what it needed to before agreeing to lend to Mr N.

ELL gathered some information from Mr N before it agreed the loan. It asked him for details of his income, and his normal rent or mortgage costs. It then used some statistical data to estimate Mr N's remaining expenditure. And it checked his credit file to assess how much he was repaying to other creditors. ELL also asked Mr N for a copy of a recent bank statement that it used to verify his income and check any unusual items of expenditure.

Mr N was entering into a significant commitment with ELL. He would need to make monthly repayments for a period of two years. So I would expect that ELL would want to gather, and independently check, some detailed information about Mr N's financial circumstances before it agreed to lend to him. I think that the checks ELL did here achieved that aim. So I think that the checks ELL did were proportionate.

But simply performing proportionate checks isn't enough. A lender also needs to react appropriately to the information shown by those checks. So I've looked carefully at the information Mr N provided to ELL, and what its other checks uncovered.

ELL's credit check showed that Mr N hadn't always managed his credit accounts well. In particular he had got behind with repayments on a loan and a credit card in the past year. But, at the time he applied for the loan from ELL, he'd been up to date with all his repayments for a number of months. Mr N's credit file also showed that he was borrowing from other short term lenders at that time. ELL provided high cost credit, so the consumers it might attract would often be unable to access mainstream loans at a lower interest rate. So I don't think ELL would have drawn significantly adverse conclusions from Mr N holding short term loans. And Mr N told ELL that he was intending to use its loan to refinance his other borrowing.

Mr N's bank statement didn't show any signs of serious problems with his finances. It didn't for example show things such as regular unpaid transactions or escalating levels of overdraft or other debt. As ELL noted, the bank statements did show some evidence of gambling transactions. And the amounts involved were higher than ELL recorded in its notes. But those transactions don't appear to show evidence that Mr N was struggling to control his gambling spending – the amounts he spent appear to have been well within his means.

So all that taken together might reasonably have led ELL to conclude that Mr N could sustainably afford the repayments he would need to make. But I think Mr N's credit history should have caused some concerns to the lender. The problems he'd faced in the past and the amount of credit he had taken were somewhat at odds with the disposable income his bank statements suggested. Of course it might be that Mr N had recently overcome some historic problems – but I think a responsible lender might have probed a little deeper into Mr N's situation and why he needed further credit.

But based on the evidence I have seen to date, I cannot reasonably conclude that those further questions would have uncovered information that might have led ELL to decline Mr N's loan application. Mr N had said he wished to use the loan to consolidate some other debt – and it seems this loan might have been at a far lower interest rate than the short term loans he was consolidating. So although I appreciate how disappointing my decision will be for Mr N, I can't currently conclude that ELL was wrong to give him this loan.