

complaint

Mr L complains that Lending Stream LLC (Lending Stream) didn't carry out proper affordability checks and shouldn't have agreed to lend him the instalment loans as he couldn't pay them back.

background

Mr L took out 12 instalment loans consecutively between January 2015 and December 2016. A summary of his borrowing is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount
1	16/01/2015	26/03/2015	100
2	13/03/2015	25/06/2015	200
3	12/07/2015	19/12/2015	600
4	19/09/2015	24/12/2015	100
5	09/12/2015	05/02/2016	300
6	25/12/2015	05/02/2016	650
7	04/03/2016	19/08/2016	350
8	06/05/2016	18/06/2016	450
9	03/06/2016	26/10/2016	500
10	14/08/2016	22/02/2017	250
11	19/10/2016	30/03/2017	200
12	29/12/2016	not closed	400

Lending Stream says it performed an affordability analysis on each loan application. It took account of the information Mr L gave, public information and that held by credit reference agencies. It considered his credit score which was acceptable. It said Mr L's income well exceeded his monthly expenditure and all the loans were affordable.

Our adjudicator felt this complaint should be partly upheld. She said Lending Stream's checks went far enough and were proportionate on the first two loans for £100 on 16 January 2015 and £150 on 13 March 2015 given Mr B's declared income. The repayments for these instalment loans appeared affordable.

But by the application for loan 3 on 12 July 2015, our adjudicator says Lending Stream should've queried Mr L's reliance on short term lending and carried out a full review of his finances. The third loan was for a significantly higher amount, was the third loan in a row and the loans had overlapped. She said if it had done more checks from loan 3 onwards it would've seen Mr L couldn't afford to repay them. She thought he had significant other financial commitments including paying off other payday loans and gambling payments. She said his disposable income was very small and at times non-existent. She thought all of the loans from this point onwards weren't affordable or sustainable and that Mr L shouldn't have

been given them. Our adjudicator also made suggestions for Lending Steam to put things right.

Lending Stream didn't agree with our adjudicator's view and explained further how it arrives at a decision to grant a loan. It did then go on to make an offer to settle the complaint. This involved closing loan 12 as it had an amount still outstanding, refunding interest and charges for loan 6 and 9, adding interest and removing all adverse information regarding the two loans that it was refunding interest for.

Mr L hasn't accepted this offer and has asked for an ombudsman review.

my findings

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

Before lending to Mr L, Lending Stream had to make sure each loan was affordable. There aren't set checks it had to carry out. But its checks should've been proportionate to things like – but not limited to – the size of the loan, the repayments and what Lending Stream knew about him.

Lending Stream says it asked about Mr L's income and expenditure and did a credit check and used his credit score each time. It relied on the information he gave.

I agree with the adjudicator that the checks Lending Stream carried out on loans 1 and 2 went far enough. He was a new customer and the repayments for these instalment loans were small. The loan repayments appeared affordable on the information Lending Stream had available.

But by the time Mr L asked for loan 3 he'd been borrowing regularly for some time taking out loans in quick succession. By this stage, I think Mr L's pattern of borrowing suggested he may've been becoming reliant on these loans. The principle amount borrowed on loan 3 was also significantly higher than the amount borrowed on the first two loans and it was over 6 monthly instalments. And so taking on all of those points together, I think it would've been reasonable and proportionate for Lending Stream to have asked more questions and carried out more checks. I think it should have done so for all of the loan applications from loan 3 through to loan 12 taken out in December 2016.

As I have already concluded, Lending Stream should have been verifying the information Mr L provided from loan 3 onwards. One way it could have done this would be to look at his bank statements. If it had done this, it would have seen he'd a number of other payday loans, financial commitments and significant gambling expenditure. And when these amounts are considered alongside Mr L's normal living costs, he didn't have enough disposable income to afford any of these loan repayments. They weren't sustainable.

Lending Stream says it relied on Mr L's credit score when deciding to grant these loans. But as I have already concluded, I think Lending Stream should've taken greater account of Mr L's borrowing pattern, the amount he borrowed and the length of the loan and if it had have done so it should have carried out more checks that would have then shown a reliance from Mr L on short term lending and how unaffordable this was.

Taking everything into account I don't think Lending Stream has shown its checks for loans 3 through to loan 12 were sufficient or proportionate given Mr L's borrowing history or, the amounts borrowed. I consider more proportionate checks would have shown Lending Stream that Mr L couldn't afford to repay the loans. On balance I don't think these 10 loans should've been granted. It should put right what it did wrong.

In summary, I don't think Lending Steam should have agreed to give Mr L loans 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 for the reasons given above. As a result it needs to pay him compensation.

putting things right

I don't think Lending Stream should have agreed to give Mr L loan 3 (taken 12/7/15), Loan 4 (taken 19/9/15), loan 5 (taken 9/12/15), loan 6 (taken 25/12/15), loan 7 (taken 4/3/16), loan 8 (taken 6/5/2016), loan 9 (taken 6/5/2016), loan 10 (taken 14/8/2016), loan 11 (taken 19/10/2016) or loan 12 (taken 29/12/16). So Lending Stream should;

- Refund any interest and charges applied to each of the loans.
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*.
- Remove any adverse information recorded on Mr L's credit file in relation to the loans.

*HM Revenue & Customs requires Lending Stream to take off tax from this interest. Lending Stream must give Mr L a certificate showing how much tax it's taken off if he asks for one.

Mr L still owes Lending Stream some of the principal balance he borrowed on his final loan, Lending Stream may deduct this from the compensation that is due to him. But, to be clear, that outstanding balance should be recalculated to remove any interest and charges, but taking account of any repayments Mr L has made on that loan as though they were applied against the principal sum borrowed.

my final decision

My final decision is that I partly uphold Mr L's complaint and direct Lending Stream LLC to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 9 October 2017.

Mark Richardson
ombudsman