complaint

Miss M complains that PDL Finance Limited (trading as Mr Lender) gave her loans that she couldn't afford.

background

Miss M took out a total of five loans with Mr Lender.

Loan	Date	Amount borrowed	No. of instalments	Date repaid
1	12.12.15	£250	6	16.12.15
2	19.12.15	£250	3	24.12.15
3	16.05.16	£200	3	26.08.16
4	02.09.16	£400	3	25.11.16
5	26.11.16	£1,010	12	18.07.17

Miss M believes that Mr Lender didn't carry out careful enough checks before making the loans. And she thinks that if it had done so, it wouldn't have agreed to them. She says she'd already taken out lots of loans, and couldn't afford to take on further lending.

Our adjudicator recommended that the complaint should be upheld in part. In summary, he thought that Mr Lender had carried out thorough enough checks before making the first three loans. And he didn't think it had been unreasonable to make them in view of the information it had. But he thought it should have carried out more detailed checks before making the last two loans. And he thought that if it had done so, it wouldn't have made loan 5. So the adjudicator recommended that Mr Lender refund all interest and charges that Miss M paid on loan 5, with interest on the refund. And he said it should remove any negative information about loan 5 from Miss M's credit file.

Mr Lender didn't agree with the adjudicator's view, so the complaint's been passed to me.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loans were offered.

Mr Lender was required to lend responsibly. It needed to make checks to see whether Miss M could afford to pay back each loan before it lent to her. Those checks needed to be proportionate to things such as the amount Miss M was borrowing, and her lending history, but there was no set list of checks Mr Lender had to do.
Mr Lender's told us about the checks it did before lending to Miss M. It says that it carried out credit checks before the loans were issued, and it asked Miss M for details of her monthly income, which she told it ranged from £1,200 per month to £1,300 per month.

The highest instalment repayable on loan 1 was £137.66. That was a relatively small proportion of Miss M's monthly income. And the credit check that Mr Lender carried out didn't show anything which I think should have prompted it to look more closely at Miss M's financial circumstances before lending. So taking everything into account, I don't think it was unreasonable of Mr Lender to go ahead and make the loan without carrying out more detailed affordability checks.

Although it was set to run for six months, Miss M repaid loan 1 after just four days. Then, a few days later, she borrowed the same amount again, but this time the loan was set to run for three months instead of six. The highest instalment due on loan 2 was £165.33. While that was more than the highest instalment that had been due on the first loan, it was still a relatively low proportion of Miss M's declared take-home pay. And at this early stage of its relationship with Miss M, I don't think Mr Lender was unreasonable to agree to loan 2 without carrying out more detailed affordability checks.

More than four months passed between Miss M repaying loan 2 and applying for loan 3. Loan 3 was for less than the previous two loans, and the highest instalment was less than £130. Again, the credit check that Mr Lender carried out didn't show anything which I think should have prompted it to carry out further checks before agreeing to lend. So I don't think Mr Lender was at fault in making the third loan without asking Miss M for more information about her financial circumstances.

But loan four marked a significant step up in the amount Miss M was borrowing from Mr Lender. And she applied for it only a few days after repaying loan 3. The highest instalment due was £220.69 – significantly more than the instalments on the previous loans, and a more substantial proportion of Miss M's declared monthly income. Taking everything into account, I think Mr Lender should, as a minimum, have asked Miss M about her regular monthly expenditure, and her credit commitments in addition to her income. I've seen nothing to suggest that it did so.

So I've looked at what Miss M's told us about her regular expenditure at the time, to see what it's likely that Mr Lender would have discovered if it had carried out what I consider to be proportionate checks in the circumstances. Miss M's told us that she made a relatively small contribution to the household outgoings, due to her levels of debt. And her bank statements from the time support what she says. I don't think that even if Miss M had told Mr Lender about her regular monthly outgoings, it ought to have concluded that she couldn't afford the loan. So I don't think it was at fault in making the loan.

When Miss M applied for loan 5, she told Mr Lender that her monthly income was £1,200, and her regular monthly outgoings were £750. She told it she didn't have any other loans. I accept that based purely on the information Miss M provided, it would have appeared that she had enough disposable income to afford the repayments.

It's true that there'd been a gap of more than four months between Miss M repaying loan 2 and applying for loan 3. But the fact remains that loan 5 was the fifth loan Miss M had applied to Mr Lender for in less than a year. And I think that by this stage, Mr Lender should have been concerned about whether Miss M was borrowing sustainably – in other words, out of her income and savings and without having to borrow to meet the repayments. She applied for loan 5 the day after she repaid loan 4. And although it was spread over a longer period than loan 4, it was for well over twice as much as her previous highest loan from Mr Lender. The highest monthly instalment due was £238.69, and Miss M was going to have to sustain repayments, for 12 months. Taking everything into account, I think Mr Lender should have taken steps to independently verify the information Miss M gave it when she applied for the loan.

I've looked at Miss M's bank statements to see what I think it's likely that Mr Lender would have found if it had looked into Miss M's financial circumstances in as much detail as I think it should have done.

I can see that Miss M was spending very large amounts every month on gambling. In fact gambling was often taking up most of her income. And she was using several other short-term lenders. So I think that if Mr Lender had carried out what I consider to be proportionate checks, it would have realised that it was very unlikely that Miss M would be able to afford to repay the loan sustainably. So, as a responsible lender, it would have declined her loan application.

This means that Mr Lender needs to pay Miss M some compensation.

putting things right

I don't think Mr Lender should have agreed to make loan 5 to Miss M. So Mr Lender should:

- Refund any interest, fees and charges applied to loan 5.
- Add simple interest at a rate of 8% per year to each of these amounts from the date they were paid to the date of settlement*.
- Remove any adverse information recorded on Miss M's credit file in relation to loan 5.

*HM Revenue & Customs requires Mr Lender to take off tax from this interest. Mr Lender must give Miss M a certificate showing how much tax it's taken off if she asks for one.

my final decision

My decision is that I uphold this complaint in part. I require PDL Finance Limited (trading as Mr Lender) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 15 April 2019.

Juliet Collins
ombudsman