complaint

Mr C complains that Cfo Lending Limited ("Cfo") agreed to give him two loans that he couldn't afford to repay.

background

Mr C first borrowed from Cfo in June 2013 – the loan was for £240. He rolled that loan over once before repaying it in July 2013. Mr C took his second loan, for £600, in October 2013. He again rolled that loan over once before repaying it in November 2013.

Mr C's complaint has been assessed by one of our adjudicators. He found that Cfo hadn't done anything wrong in relation to the first loan, but thought that the second loan was unaffordable. Mr C agreed with that assessment. But Cfo disagreed – it thought the checks it had performed on the second loan were sufficient. So it has asked, as it is perfectly entitled to, that the entire complaint is decided by an ombudsman.

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.

Cfo was required to lend responsibly. It needed to make checks to see whether Mr C could afford to pay back each loan before it lent to him. Those checks needed to be proportionate to things such as the amount Mr C was borrowing and his lending history, but there was no set list of checks Cfo had to do.

Cfo has explained that it didn't conduct full credit searches. Instead it asked Mr C for details of his normal income and expenditure, checked his personal details were accurate with a credit reference agency and then used underwriters to review his application.

When he made his first application Mr C told Cfo that he had around £1,350 in disposable income each month. I have some concerns about the questions that Mr C was asked before he arrived at this figure – for example he only seems to have been asked about his monthly mortgage or rent payments, his payments on other credit and on bills. So he might not have included some of his other expenditure such as food or travel costs. But, although the disposable income Mr C declared to Cfo is far more than his true situation I don't think that Cfo could reasonably have known this at the time. So I think the checks Cfo did were enough and the decision to give him that loan was reasonable.

Mr C wasn't able to repay his first loan on time – he needed to defer it until the following month. And then there was a gap of around ten weeks before he asked Cfo for another loan. But that request was for a far higher amount. So I think that, taking into account the size of the loan and the problems Mr C had repaying his first loan, Cfo might have thought it necessary to do some more detailed checks than it had on the first loan.

When he made his application the disposable income that Mr C declared had gone down a little – his income had gone up but he said he was spending a bit more on his other credit commitments. But given that he'd needed to defer his previous loan I think Cfo might have been more suspicious of that information. So I don't think that, for the second loan, the checks that Cfo did were enough.

By choosing not to look at Mr C's bank statements, or his credit file, Cfo was unaware of the true state of Mr C's finances. By the time of his second loan in October 2013 Mr C was borrowing regularly and heavily from other payday lenders. And he was spending significant sums each month on gambling transactions. This meant that, considering these costs together with his normal day to day living costs, the loan of £600 that he took from Cfo was unaffordable. And I think that if sufficient checks had been performed, this would have been apparent to Cfo.

In summary I think the checks that Cfo did for Mr C's first loan were enough. But I think more checks should have been done for the second loan, and that these would have shown the loan wasn't affordable. So I don't think Cfo should have agreed to lend to Mr C at that time and so should pay him some compensation.

putting things right

I don't think Cfo should have lent to Mr C in October 2013. So Cfo should;

- Refund the interest and charges applied to that loan.
- 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 C's credit file in relation to this loan.

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

my final decision

My final decision is that I partially uphold Mr C's complaint and direct Cfo Lending Limited to pay him fair compensation as detailed above.

I make no other award against Cfo Lending Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 21 November 2016.

Paul Reilly
ombudsman