Financial Ombudsman Service

complaint

Mr R complains that PDL Finance Limited, trading as Mr Lender, gave him loans which trapped him in a spiral of debt and he couldn't afford to pay them back.

background

Mr R borrowed five times from Mr Lender, as follows:

loan number	date taken	amount borrowed	repayment terms	maximum amount	repaid
1	15 January 2017	£300	6 months	£143	25 January 2017
2	9 February 2017	£300	6 months	£104	4 October 2017
3	6 March 2017	£300	6 months	£116	25 August 2017
4	20 September 2017	£1,500	12 months	£368	4 October 2017
5	17 October 2017	£400	4 months	£222	2 November 2017

Mr R feels that Mr Lender was irresponsible to lend to him because the loans weren't affordable for him. He says that he had to borrow from family and other lenders to be able to repay them and this trapped him in a spiral of debt.

The adjudicator felt this complaint should be upheld in part. He thought that Mr Lender's checks before agreeing the first three loans went far enough but he didn't think it carried out enough checks before it provided loans 4 and 5. If it had done so, he said that he didn't think Mr Lender would have agreed these two loans. So he asked Mr Lender to refund the interest and charges applied to loans 4 and 5, together with interest at 8% and remove any adverse information about them from Mr R's credit file.

Mr Lender didn't agree with the adjudicator. It said that, with disposable income of over £80 after the loan repayment, the loan repayments were affordable.

my findings

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

Mr Lender was required to lend responsibly. Before agreeing to lend to Mr R, it had to check that he could afford to make the repayments without it adversely impacting on his financial situation. It had to gather enough information so that it could make an informed decision on the lending.

The guidance and rules don't set out compulsory checks but they do list a number of things a lender might wish to take into account before agreeing to lend. But any checks need to be proportionate and should take into account a number of things, including things such as how much is being lent and when what's being borrowed is due to be repaid.

Mr R was given loans where there was an expectation he'd repay what he'd borrowed plus the interest due over different monthly repayment terms. As a result, the checks Mr Lender carried out had to provide enough for it to be able to understand whether Mr R could afford to make all of these payments when they fell due.

loans 1 to 3

Mr Lender told us that it asked Mr R about his income each time he requested a loan. It also asked him about his normal monthly living costs and carried out a credit check. For these three loans, it's recorded his income as £2,000 and his maximum average monthly expenditure at just over £1,200, leaving a declared disposable income of at least £780. The maximum loan repayment that Mr R had to make for any of these loans was £143.

I think the checks Mr Lender did for these loans went far enough and it wasn't wrong to conclude that they were affordable.

loan 4

Mr R asked for the fourth loan within four weeks of repaying the third and it was for a much larger amount than he had requested before. I think that Mr Lender should have been concerned that Mr R was possibly becoming reliant on short term borrowing. Mr R had repaid his first three loans early but as this was his fourth loan, I think it reasonable that it would have been concerned about his pattern of borrowing. Because of this I think that Mr Lender should have asked Mr R about any short term loan commitments he had as well as his regular financial commitments and normal living expenses. I note Mr Lender's comments about asking for details of credit commitments and the credit reports it acquired but I still think that it should have asked some very specific questions about any other short term lending he was already committed to repaying.

Had Mr Lender asked Mr R about his short term loan commitments I think it would have realised that he had a number of loans outstanding at the time the loan was provided. Based on the information I have seen and adding Mr R's short term loan commitments, which were in excess of £800, to his other expenses meant that he did not have enough money to make his monthly repayments. Because of this, I find that the fourth loan was unaffordable.

loan 5

Although Mr R repaid the fourth loan early, it was less than two weeks before he was asking to borrow for a fifth time. So as well as asking him about normal living expenses and regular financial commitments and whether he had any other short term lending I think it should have taken steps to independently verify his true financial position before agreeing to lend. Mr Lender could have done this by asking for evidence of his income and outgoings, such as payslips or copies of bills or it could've looked at things like Mr R's bank statements.

If it had done so, I think that it would have seen that Mr R was borrowing from other short term lenders and he seems to have been spending significant amounts each month on what appear to be gambling transactions. I accept that Mr Lender did ask Mr R if he planned on using the loan for gambling, but I don't think it was enough for Mr Lender to rely on what he told it at that time. As I've explained above, it should have taken steps to verify Mr R's true financial situation.

His income was just over £2,100 and his regular monthly living costs, including financial commitments, of around £1,500. He also had other significant short term lending commitments of around £600. Adding these to his regular expenditure meant that he couldn't afford the loan.

So if Mr Lender had carried out better checks I think it would've concluded that repayment of loans 4 and 5 wasn't affordable. Given this, I don't think it was right for Mr Lender to give Mr R these loans.

putting things right

I don't think Mr Lender should have agreed to lend to Mr R for the loans he took from 20 September 2017 (loans 4 and 5 above). So for each of those loans Mr Lender should:

- refund any interest and charges applied to the loans (4 and 5)
- 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 R's credit file in relation to the loans.

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

my final decision

My final decision is that I uphold this complaint in part. I require PDL Finance Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 16 November 2018.

Karen Wharton
ombudsman