

complaint

Mr M complains that PDL Finance Limited (trading as Mr Lender) gave him loans that he couldn't afford to repay. He asks that it refunds interest and charges and removes information about the loans from his credit file.

background

Mr M took out a £500 loan with Mr Lender in 2013. He says Mr Lender was irresponsible to lend to him and to let him roll over his loan six times. He says his credit file showed he was in financial difficulty due to his gambling problem. Mr M says his financial situation meant he had to roll over the loan and take out other short term loans.

Mr Lender offered to refund £245. Mr M says this isn't enough. He says the loan shouldn't have been offered to him and Mr Lender should refund all of the interest he paid (about £1,000) plus 8% interest.

Our adjudicator recommended that the complaint should be upheld. She said Mr M rolled over the loan six times, which wasn't sustainable. The adjudicator said Mr Lender should refund interest from 30 September 2013, with 8% interest, and remove negative information recorded on Mr M's file after this date.

Mr Lender didn't agree with all of the adjudicator's recommendations. Mr Lender said it would refund interest and charges applied after 30 September 2013 not including the last interest paid as this was still due. It said if it had stopped lending after the three rollovers, Mr M would still have owed £675. Mr Lender offered to refund £599 plus 8% interest. Mr M asked for an ombudsman to make a decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

Mr M took out a loan of £500 with Mr Lender in July 2013. Mr Lender needed to make sure it didn't lend to Mr M irresponsibly. It needed to carry out proportionate checks to understand whether this loan was sustainable for Mr M.

Generally, I think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

Mr Lender recorded Mr M's monthly income as £2,500. It says its credit check showed Mr M had an above average credit score. It says the credit check didn't show any defaults, court judgements or bankruptcy.

From what Mr M has said, his circumstances were difficult at that time. But I don't think Mr Lender knew this. Given the amount of the loan, what was apparent about Mr M's circumstances at the time and that this was his first loan, I don't think it would have been

proportionate for Mr Lender to ask him for the amount of information needed to show the lending was unsustainable.

There wasn't anything in the information Mr M provided or the information Mr Lender should have been aware of, which meant it would have been proportionate to start verifying what Mr M told it.

In the circumstances, I don't think it was wrong for Mr Lender to offer the loan to Mr M.

The loan agreement dated 4 July 2013 required Mr M to pay £175 at the end of July and £675 at the end of August 2013. However, the agreement also said it had a duration of 26 days and the total amount due was £675. This suggests a final repayment of £675 was due at the end of July 2013. The account statement says the loan was rolled over at the end of July 2013. I think it's reasonable to say the loan was first deferred at the end of July 2013.

Mr M asked Mr Lender to defer (roll over) the loan six times: the last rollover meant the loan was due at the end of January 2014. Mr M didn't repay the loan in January 2014. He agreed a repayment plan with Mr Lender in March 2014.

In mid-2013, good industry practice was developing that said customers should be allowed no more than three rollovers. I think here, Mr M's repeated request to defer repayment of the loan was enough to suggest he might be experiencing financial difficulty.

I don't think Mr Lender should have allowed Mr M to defer repayment of the loan more than three times. I've considered what Mr Lender said in response to the adjudicator's view about the interest that should be refunded.

Mr Lender applied interest at the start of each loan or rollover period. It applied £175 interest on 4 July 2013, when Mr M took out the loan. It applied £175 interest on each of 31 July, 2 September and 30 September 2013 when it rolled over the loans. I agree it's entitled to this interest.

But, as I don't think Mr Lender should have allowed further rollovers after 30 September 2013, I think it should:

- Refund all interest and charges paid by Mr M in respect of rollovers that took place after 30 September 2013;
- Pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement*;
- Remove any negative information recorded as a result of the loan being deferred after 30 September 2013 from Mr M's credit file.

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

my final decision

My decision is that I uphold this complaint. I order PDL Finance Limited to take the steps and pay the compensation set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 25 May 2019.

Ruth Stevenson
ombudsman