

complaint

Ms G says that Instant Cash Loans Limited, trading as Money Shop, lent to her irresponsibly. She also says that the interest charges and fees she paid were extortionate.

background

I sent Ms G and Money Shop my provisional decision on 19 June 2019. A copy is attached and it forms part of this final decision. I explained why I was planning to uphold Ms G's complaint and asked both parties to let me know if they had anything to add. Neither Ms G nor Money Shop sent me anything new to consider.

my findings

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

As neither party has disagreed with my provisional decision, I see no reason to depart from my provisional findings. So I'm upholding Ms G's complaint, for the same reasons as given in my provisional decision.

putting things right

Ms G has an outstanding balance with Money Shop. So Money Shop must remove all interest and charges from the balance of the loan and treat any payments made as if they were payments towards the principal. Money Shop should also remove any adverse information it recorded about the loan from Ms G's credit history – although it only needs to do this once the loan has been repaid. I leave it to Ms G and Money Shop to discuss how the remaining principal balance will be repaid.

my final decision

I uphold Ms G's complaint. Instant Cash Loans Limited must put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 5 August 2019.

Matthew Bradford
ombudsman

COPY OF PROVISIONAL DECISION

complaint

Ms G says that Instant Cash Loans Limited, trading as Money Shop, lent to her irresponsibly. She also says that the interest charges and fees she paid were extortionate.

To be clear, this decision is about one pay day loan Ms G took out online in April 2016. I'm aware Ms G has a separate complaint against Money Shop about loans she took out in store – these loans are not covered by this decision.

background

Ms G had one online payday loan with Money Shop in April 2016, it was for £650 with a term of five months. Our adjudicator considered Ms G's complaint but she didn't think the loan was lent irresponsibly. Ms G didn't accept the adjudicator's view, so the complaint was passed to me to decide.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

did Money Shop lend to Ms G irresponsibly?

When Ms G took out the online loan Money Shop asked her some questions about her income and expenditure. It seems Ms G said her income was £2,100 a month and her expenditure totalled about £1,470. Based on these figures, Ms G's approximate disposable income each month appeared to be £630. As the loan repayments were a little under £200 a month, Money Shop was happy the loan was affordable.

Having reviewed Ms G's complaints against Money Shop, I am concerned that Ms G still had an outstanding balance with it in respect of the in store (or 'retail') loans. She'd taken out a retail loan in July 2013, which later went into default. The last payment Ms G made towards that loan was in July 2015 – some two years after it commenced. There was still an outstanding balance of £126 at that time but no further payments were made.

Ms G later applied for the online loan, about ten months after she last made a payment towards the retail loan. I asked Money Shop how information about Ms G's online and in-store loans was shared within the business. It said that the online system wouldn't have cross-referenced the retail system before a lending decision was made. It also pointed out that Ms G had a new address when she applied for the online loans, which wasn't linked to the address she had at the time of the retail loans.

I've thought about these points, but I'm not currently persuaded Money Shop wasn't (or shouldn't reasonably) have been aware Ms G had an outstanding defaulted debt with it at the time she applied for the online loan.

Money Shop's parent company has previously told this service that it has safeguards in place to ensure a customer could only have one active loan in place with all of its brands. And that this should mean a customer with an active loan with one brand shouldn't be able to take out a loan with another.

I accept checks like this won't always be successful – particularly where applicants provide significantly different information between loan applications.

But I've noted that in Ms G's case she provided Money Shop with the same first name, last name and date of birth for her retail and online loans. And it looks like she also provided the same mobile number. So I'm not persuaded that providing a different address would be a real barrier to identifying Ms G as an existing retail loan customer. Particularly as the retail loan was still active – albeit the notes for that loan suggest Money Shop wasn't actively pursuing repayment. I also note that Money Shop spoke to Ms G before the loan was approved, so the process wasn't entirely automated and there was an opportunity to look more closely at Ms G's application.

So on balance, I think Money Shop should reasonably have realised that Ms G had an outstanding defaulted retail loan with it when she applied for the online loan. In those circumstances, and in line with both what I understand to be its policy and what I consider to be responsible lending, I don't think Money Shop should've approved the online loan. Ms G had an outstanding balance for a significant period of time – and had clearly been in financial difficulty. Further lending, without resolving the defaulted loan, would likely impact Ms G's financial situation adversely. It would increase her indebtedness to Money Shop at a time Money Shop should've been seeking to reduce it.

I'm therefore planning to uphold Ms G's complaint about the lending being irresponsible.

were the interest and other fees charged extortionate?

As I'm currently planning to direct Money Shop to write off the interest payable on this loan the amount of interest charged is likely now not of importance. But my final decision might not be the same as my provisional decision, so I'll address the question anyway.

The total amount Ms G was scheduled to repay for this loan was £971.80 – meaning the interest payable was £321.80. This means the interest is about half of the principal amount borrowed.

The regulator imposes a price cap on this type of loan – the most Money Shop could charge in interest is 0.8% per day and the overall cost of the loan can't be more than 100% of the principal. There's also a default fee cap of £15.

So the amount of interest (daily and total) Money Shop charged on this loan is well within the price cap. And overall I don't think the amount charged for the loan is extortionate. I've seen no evidence Money Shop added any excessive fees or charges to the loan. From what I have seen, the balance of the loan never exceeded £971.80 – even after the loan went into default. It appears that no extra fees were charged after Ms G became unemployed and that Money Shop capped the interest applied at the original amount Ms G would've owed had the loan been repaid on time.

I therefore don't intend to uphold this aspect of Ms G's complaint.

putting things right

Ms G has an outstanding balance with Money Shop in respect of the online loan. So I plan to tell Money Shop to remove all interest and charges from the balance of the loan and treat any payments made as if they were payments towards the principal. Money Shop should also remove any adverse information recorded about the loan from Ms G's credit history – although it only needs to do this once the loan has been repaid.

Based on the information available to me, taking the steps set out above will still leave a balance to repay. I think it's fair the principal balance is repaid, as Ms G had the use of that money.

my provisional decision

I plan to uphold Ms G's complaint in part and to tell Instant Cash Loans Limited to put things right by taking the steps set out above.