

complaint

Mr G complains that Indigo Michael Limited gave him loans he couldn't afford to repay. He asks that the balance is written off and the loans are removed from his credit files.

background

Mr G took seven loans from IML between 31 March and 1 May 2014. While IML didn't agree it lent irresponsibly, it offered to write off the remaining unpaid balance of £385 as a gesture of goodwill. Mr G said he'd accept this if it also removed the loans from his credit files. He said IML had access to his bank accounts and was aware of his gambling problem and increasing debts.

The adjudicator recommended that the complaint should be upheld. She said the loans of £100 to £250 were small relative to Mr G's monthly income of £1,800. But IML was aware that Mr G gambled often and used payday loans to meet expenses. He had two defaulted accounts. It was irresponsible to lend to him. The adjudicator recommended that IML refund interest and charges, with interest at 8%, and, once Mr G had repaid any balance, remove the loans from Mr G's credit files.

IML didn't agree. It said the defaults on Mr G's credit file were settled before he asked for the loans. It took account of expenditure which indicates risk, such as gambling and use of short term credit. Mr G's credit file was good and his income showed the loans were affordable. While he gambled, this was within his means. It said it wouldn't be responsible to remove the loans from Mr G's credit files.

Mr G also disagreed. He said he'd like the balance written off and the loans removed from his credit files.

my provisional findings

I sent a provisional decision to the parties in which I set out the following provisional findings:

IML used a credit check and information about Mr G's income and expenditure from his bank statements to assess whether the loans were affordable. Mr G's monthly income was £1,800 in March 2014 and £2,200 in April 2014.

IML says Mr G's credit record was good. While he'd taken out a number of short term loan accounts, he'd repaid them. He had no defaults in the previous 12 months and his previous defaults had been satisfied. Mr G isn't ineligible for a loan because he's had payday loans or previous defaults. Nor is he ineligible for a loan because he gambles. But I think this information should be taken into account when assessing whether the loans are affordable.

I think Mr G's pattern of borrowing raises concerns. He took out seven loans in just over a month, taking out a new loan before or on the same day as repaying previous loans. While I don't think this means IML should refuse to lend to him, it should be alert to a possible problem when assessing whether further borrowing is affordable and sustainable.

IML analysed Mr G's income and expenditure from his bank statements. It calculated he had enough disposable income to repay the loans.

I've looked at Mr G's bank statements. While he makes payments to payday lenders and to credit and store card accounts, the total amount he spends on credit commitments is less than £300 in each of February and March. This increases to about £650 in April, excluding payments to IML. Mr G has explained that there are payments from his bank account to another account for his share of joint bills and mortgage payments. He also made payments to repay a debt owed to a family member. These payments came to about £1,000 in February, £900 in March and £750 in April 2014.

After housing costs and debt payments, Mr G had disposable income of over £600 in March and £800 in April. The loans were for between £25 and £250 and the highest outstanding balance was £295.

From Mr G's bank statements, it seems his gambling expenditure was about £600 in March (with winnings of £400). While he transferred about £2,500 in April 2014 to a gambling business he also received refunds of £2,200 that month. So his net spending on gambling was £200 to £300 per month. I'm not persuaded IML should have refused to lend because Mr G spent this amount on gambling.

While Mr G's spending and borrowing patterns raise concerns, this doesn't in itself mean IML shouldn't have offered him the loans. I think IML did proportionate checks to establish whether the loans were affordable. I don't think, based on the information it had, it was unreasonable for IML to assess the loans as affordable. IML offered to write off the loan balance and I leave it to Mr G to decide whether to accept its offer.

Mr G didn't agree. He said IML should provide proof that he had a good credit file at the time. Mr G said his credit report was very poor due to multiple defaults of payday loans and he'd provided a snapshot of his report to support this.

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 G sent a snapshot of his credit report for September 2014. But lenders don't necessarily receive the same information from a credit check as set out in a credit report obtained by a customer. And this report was for September 2014, some months after Mr G borrowed from IML. While Mr G says his credit rating was very poor with multiple payday loan defaults, I don't think IML was aware of this when it made its decision to lend to him.

IML did a credit check before lending to Mr G and provided a summary of the results. This showed no recent defaults and previous defaults had been settled. While it showed Mr G had taken out 31 short term loans, 29 had been settled.

I don't think it's reasonable to say that IML should have refused to lend based on the information it received from the credit check. But Mr G's borrowing pattern, and his gambling, alerted it to a possible problem. I think it was appropriate for it to consider Mr G's income and expenditure to assess whether the loans were affordable. I think it did this.

I understand Mr G is disappointed with my decision. But I think the checks carried out by IML were proportionate. I think, based on the information it had, it wasn't unreasonable to assess

the loans as affordable. I leave it to Mr G to decide whether to accept IML's offer to write off the outstanding balance.

my final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 28 December 2016.

Ruth Stevenson
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