

complaint

Mr B has complained that Nextcredit Limited granted him a number of loans that were unaffordable and unsuitable.

background

Mr B entered into eight high-cost short-term loans with Nextcredit between December 2012 and October 2013. He feels that these were unaffordable, as Nextcredit did not check his credit file. He says if it had done, it would not have lent to him because multiple defaults had been recorded.

Our adjudicator recommended that the complaint should be upheld. Although he did not agree that the presence of the defaults would necessarily have meant the loans were unsuitable, he was satisfied that it became apparent by May 2013 that Mr B was in a debt spiral, so there should have been no further lending beyond that point.

Nextcredit disagreed, largely because it Mr B has always repaid the loans and had never indicated that he was in financial difficulty. Accordingly, the complaint has been passed to me for my final decision.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I agree with the adjudicator that, given that the sums being borrowed were relatively small, it would not necessarily expect the loans to be declined on the basis of previous defaults. This is particularly so given that Mr B set out what his income was, which suggested he was in a position to make the repayments. Credit checks are only one factor a business may use in deciding whether or not to extend credit.

That said, I also agree that it should have become clear that Mr B was in a debt spiral, and that further lending would be irresponsible. I say this even though Mr B was meeting the repayments. The OFT guidance on Irresponsible Lending sets out that high-cost short-term loans of this nature are not appropriate for regular, repeated borrowing. This is so regardless of whether or not repayments are being made. It strongly suggests that these loans are being used for day-to-day living, rather than as a short-term solution.

I turn now to when the loans became inappropriate. I am satisfied that this should have been becoming clear (and at least warranted some further investigation) at the time of the loan of 24 May 2013. This is because it came immediately after the repayment of the second loan, indicating that Mr B had become reliant on the lending to live day-to-day. I also note he had a significant number of other loans with other companies, so may well have been using one loan to pay another. This means it is not persuasive to argue that loans are affordable just because they are paid off.

I therefore consider it fair for Mr B to be repaid the interest (and any charges – although I do not believe there to be any) from 24 May 2013. However, the principal sums should not be repaid, as Mr B had the benefit of these funds.

my final decision

It is my final decision to uphold this complaint. I require Nextcredit Limited to refund all interest and charges from 24 May 2013. It must add 8% simple interest per annum from the date each charge was made to the date of settlement.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr B to accept or reject my decision before 10 July 2015.

Elspeth Wood
ombudsman