

complaint

Mr C complains that CashEuroNet UK LLC, trading as Pounds to Pocket, gave him loans he couldn't afford to repay.

background

Mr C took out four instalment loans with Pounds to Pocket: *loan one* in March 2013, *loan two* in May 2013, *loan three* in September 2013 and *loan four* in February 2014. Each loan was for £950, repayable in either 11 or 12 instalments.

I issued a provisional decision on 1 September 2017. I've attached it here and it forms part of my final decision. In it, I explained why I thought Mr C's complaint should be upheld in part.

In summary, I didn't think Pounds to Pocket had carried out proportionate checks when lending to Mr C and so it hadn't done enough to check if he could repay his loans in a way which was sustainable.

I thought that if Pounds to Pocket had carried out proportionate checks, it would've established that three of the four loans – the loans granted in March 2013, September 2013 and February 2014 – were not affordable to Mr C. So I proposed upholding his complaint about those loans.

Both Mr C and Pounds to Pocket have replied to my provisional decision. Mr C said he didn't have anything else to add. And Pounds to Pocket accepted my provisional decision.

my findings

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

As Mr C didn't have anything else to add – and as Pounds to Pocket accepted my provisional decision – I see no reason to change my proposed outcome. I therefore uphold Mr C's complaint for the same reasons as given in my provisional decision.

putting things right

Pounds to Pocket must:

- refund all interest and charges Mr C paid for loans one, three and four (as noted in the background section above);
- pay interest on these refunds at 8% simple* per year from the dates of payment to the dates of settlement;
- remove any adverse information about these loans from Mr C's credit file.

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

my final decision

For the reasons I've explained, I uphold Mr C's complaint.

CashEuroNet UK LLC should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 11 October 2017.

Matthew Bradford
ombudsman

COPY OF PROVISIONAL DECISION

complaint

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background

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Prior to taking out the first loan and between loans three and four, Mr C had short-term loans with Pounds to Pocket's sister company. I understand Pounds to Pocket would've been aware of this, so I've kept this in mind when considering Mr C's complaint.

An adjudicator looked at this complaint and recommended it be upheld in relation to all but loan two. Pounds to Pocket didn't agree with the adjudicator. In summary, it didn't think there was enough evidence to say the loans were not affordable – and it thought the affordability checks it carried out were adequate.

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. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time.

loan one

I don't think Pounds to Pocket did proportionate checks to ensure the loan was affordable. It would've known that Mr C had repaid a loan to its sister company on the same day he asked for this loan. And this loan was much larger than the loan from its sister company – although repayable over a longer term.

Given what it already knew about Mr C, I think Pounds to Pocket should've been asking him for more information, not just his typical living costs but also his other credit commitments.

It isn't clear exactly what Mr C's living costs were. Pounds to Pocket doesn't have information from this time and doesn't appear to have asked for it. It only asked Mr C about his monthly income. I can see that it did this in July 2012 and he provided two figures on the same day; the lower of which was £1,350. It has told us that this was the figure it was relying on when it assessed the affordability of Mr C's loans. But Pounds to Pocket's sister company asked Mr C about his income in February 2013 – a month before he applied for his first loan with Pounds to Pocket – and he told the sister company that it was £1,100.

As the two companies shared systems it's likely that Pounds to Pocket had access to this information. But even if it didn't and it had asked Mr C in March 2013 what his income was, it's likely – given that the sum he provided to the sister company was only a month before – that he'd have told Pounds to Pocket a figure closer to that amount.

Pounds to Pocket didn't ask Mr C about his outgoings until August 2014. This was after he'd taken the fourth loan but at a point when he was asking for a top-up of around £200. At that time he declared relatively low living costs of £425. Mr C has told us that his rent and bills were around £430 and his other regular outgoings such as transport meant that in total he spent just over £600.

I think the higher sum for expenditure is more realistic, but even if I take the minimum amount of expenses - £425 and the higher sum of income - £1,350, I don't think the loan was affordable for Mr C

in a sustainable way. These figures would've left Mr C with a disposable income of around £900. I can see that in the month before Mr C took the first loan he was borrowing – not only from the sister company but also another payday lender. And he had credit card debts. After he repaid over £1,100 to that other lender on 1 March he borrowed on three further occasions – a total of around £1,750. He made some repayments – including one of £201 on the day he took loan 1 from Pounds to Pocket

I think that if Pounds to Pocket had made proportionate checks before providing the first loan - which was going to tie Mr C into repaying almost £160 for 11 months - it would've asked about his income and outgoings and his short term credit commitments. Had it done this it would've understood that the amount he had to repay for his short terms loans would mean that he wouldn't have had enough left over to repay his Pounds to Pocket loan. So it wouldn't have provided the loan. And I intend to uphold Mr C's complaint about loan one.

loan two

I think the level of checks needed for loan two was similar as for loan one. Mr C was borrowing again within a relatively short time of repaying loan one (about three weeks) but he had repaid it early. So at this stage I don't think that Pounds to Pocket needed to do more than ask Mr C about his income and outgoings and his short term credit commitments. It tells us it did credit checks but hasn't shown us the results. I accept that the credit report may not have alerted Pounds to Pocket to do more – based upon its own lending criteria. But by failing to ask Mr C about his regular monthly outgoings and short term credit commitments Pounds to Pocket didn't know what disposable income was available to Mr C from which to repay his loan. So I don't think it did proportionate checks for loan two.

However had Pounds to Pocket done proportionate checks and gathered information about Mr C's income and expenditure, including all of his credit commitments, I think it would've decided that Mr C could afford the instalments. And I don't think it would've been wrong to come to that conclusion.

This is because Mr C's level of credit commitments had decreased. He has explained that he inherited several thousand pounds in April 2013. And from what I can see he repaid some of the debts he had at the time – around £3,000. It doesn't look – from the bank statements that Mr C had much income by way of a salary but it seems he didn't tell Pounds to Pocket this. And it relied on what he'd previously declared – which I don't think was unreasonable in these circumstances. As it seems Mr C had cleared the bulk if not all his credit commitments during the month before he took loan 2 I think that the instalments of around £160 per month would probably have appeared to Pounds to Pocket to be affordable. So I don't intend to uphold Mr C's complaint about that loan.

loan three

Mr C repaid loan two early - in mid-August 2013. He took out loan three in September 2013. I think it would've been proportionate for Pounds to Pocket to carry out checks similar to those it should've done for loans one and two. But it seems it did the same as before and relied on the information it had earlier obtained. So I'm satisfied – as with the earlier loans - that it didn't do enough.

I mention above that Mr C inherited some money in April 2013. It seems that £7,800 was spent shortly afterwards to purchase a car. And I explain above that Mr C appears to have used a significant portion of the balance to repay outstanding credit.

But in May this would've meant that he still had several thousand pounds left. Mr C has told us – and I can see in his bank statements that he inherited a further sum in June – this time less than before but still a few thousand pounds. And at around that time his current account had a healthy balance – for a while. But it seems that Mr C became unemployed for a period. He was in receipt of benefits. So his financial situation began to change.

Towards the end of June Mr C began to borrow from payday lenders again. So I've looked at whether he had other money still available (in September) such as savings from which he could sustainably

repay the loan. But from what I've seen, much of the remaining money appears to have been used to repay other debts and Mr C didn't have any savings by the time he took out loan three.

It seems (from his bank statements) that Mr C's income at the time was around £1,200 a month. But he had an outstanding loan for over £600 from another lender. Taking into account again the lower figure I've seen for living costs (£425) I don't think the instalments would've appeared to be affordable. So I don't think Pounds to Pocket would've given Mr C the loan had it carried out proportionate checks.

loan four

By the time Mr C took out his fourth loan with Pounds to Pocket, he'd borrowed from it – and its sister company – six times in the space of a year, with only, at most, modest breaks between the loans. Given how long Mr C had been using short-term credit, I think it would've been proportionate for Pounds to Pocket to look much more closely at his circumstances and start verifying, as well as asking for, more information about his income and expenditure. To help me understand what Pounds to Pockets would've seen had it carried out proportionate checks, I've looked at his bank statements.

Had Pounds to Pocket carried out proportionate checks it would've found out that Mr C was borrowing from – and repaying – a number of other short-term lenders. It would've seen that Mr C was in a pattern of borrowing from different short-term lenders on a month-to-month basis.

It also would've seen that, in the months before it granted loan four, Mr C was spending more than his salary repaying other creditors. In January, for example, I can see Mr C was paid £1,050, but repaid around £1,130 to short-term creditors (including £224.80 to Pounds to Pocket's sister company). He also paid over £200 to other creditors. In the same month, Mr C continued to borrow from other short-term lenders – so it seems likely he'd have similar repayment commitments in February, the month his first instalment of loan four was due.

At the same time, Mr C was spending a great deal of money on gambling. In the months preceding the loan, it looks like he spent over £1,200 a month. I note that there also appear to be winnings – sometimes significant amounts. But given the level of gambling involved, had Pounds to Pocket done proportionate checks and seen the extent of it – as a responsible lender I think it would have concluded that it would be irresponsible to lend to Mr C.

But, putting the issue of gambling aside, I think proportionate checks would've revealed that Mr C had existing loan repayments which, when taken together with his basic living costs, meant loan four wasn't affordable. Mr C didn't have enough disposable income or savings from which to make the monthly instalments. So had Pounds to Pocket carried out a proportionate check, I don't think it would've lent to Mr C. I therefore intend to uphold his complaint about loan four.

putting things right

I intend to say Pounds to Pocket must:

- refund all interest and charges Mr C paid for loans one, three and four (as noted in the background section above)
- pay interest on these refunds at 8% simple* per year from the dates of payment to the dates of settlement;
- remove any adverse information about these loans from Mr C's credit file.

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my provisional decision

For the reasons I've explained, I plan to uphold Mr C's complaint in part and to tell CashEuroNet UK LLC to put things right by doing what I've said above.

I now invite both parties to provide anything further they may wish me to consider, in writing within two weeks, after which time I will again consider my decision.