

## **complaint**

Mr B complains Adlington House Limited (trading as Loan Extra) was irresponsible to lend him money he couldn't afford to pay back.

## **background**

Mr B got three loans from Loan Extra between July and September 2012. He says these loans contributed to an unsustainable cycle of debt causing him worry and upset leading to depression. He doesn't think Loan Extra carried out proper checks to make sure the lending was affordable for him - because he had other payday loans at the time and some accounts in default. He wants Loan Extra to refund interest and charges and remove related information from his credit file.

Loan Extra says it encourages borrowers to think about affordability for themselves by recommending five steps to consider before applying for any loan. Applications are then checked and assessed automatically by the system's design engine and manually verified before funding. Loan Extra considers it carried out appropriate and proportionate checks at each stage of the lending process to ensure Mr B could meet his repayments. And it points to other applications it received from Mr B which were declined because of his financial situation.

Our adjudicator isn't persuaded Loan Extra did enough to assess affordability. She thinks it should have asked Mr B about income and expenditure and checked his credit history. She recommends Loan Extra should refund all interest and charges plus interest and rectify Mr B's credit file. She says Loan Extra should also pay Mr B £100 compensation for the upset and trouble the irresponsible lending caused.

Loan Extra says it used external sources for credit checks. And it didn't have to ask Mr B for his income and expenditure because it used an automated process (in common with most payday lenders at the time) that assessed affordability through multiple measures.

## **my 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 reached the same conclusions as our adjudicator for broadly the same reasons.

Where the evidence is incomplete, inconclusive or contradictory (as some of it is here), I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in the light of the available evidence and the wider circumstances.

Mr B first asked Loan Extra to lend him £300. It agreed to a £200 loan which he repaid on time, after seven days. Just two days after that payment Mr B asked for another loan. Loan Extra declined the application, but it lent him £350 two days later. That loan meant Mr B had to pay back nearly £450 in about a month. He wasn't able to do so and Loan Extra issued a default notice. Mr B repaid what he owed in early September and applied for another four loans over the next five days. Loan Extra declined all of those applications - but it approved another £350 loan about two weeks later. Mr B didn't pay that back and Loan Extra has since sold the debt.

Under industry guidance in place at the time Loan Extra was required to check Mr B could afford to pay each of these loans back in a sustainable way. That means it should have obtained enough information to consider the potential impact of the lending on Mr B's finances – and assess if he was likely to be able to make repayments on time without undue difficulty or incurring more debt.

I accept Loan Extra had some choice about the nature and extent of the affordability assessments it undertook – and the scope of those assessments should have been proportionate in the circumstances. Loan Extra has supplied a copy of its internal manual which sets out in some detail the process used to make each lending decision. It also sent the results of searches carried out against Mr B's credit history. I've considered these carefully.

The search results are in a format that's meant to be fed into Loan Extra's automated decision engine - so the information isn't readily interpreted manually. But it looks as if Loan Extra could see Mr B had about £1,900 a month income and at least nine other credit accounts – some of which were up to four payments in arrears. I acknowledge there's no sign of insolvency or any county court judgments. But I think there's some evidence Mr B had probably been applying regularly to other lenders for similar sorts of loan.

I accept those results would have allowed Loan Extra see how Mr B dealt with some of his financial obligations in the past. I think that probably helped Loan Extra form a view on the level of risk it would be taking on if it lent to Mr B. But I find it difficult to see how this information alone told Loan Extra much about his ability to repay the money he wanted to borrow in a sustainable way - or what impact the borrowing might have on Mr B's financial situation going forward.

Looking at the credit report Mr B has supplied, I can see one of his accounts defaulted in May 2012. And the accounts in arrears at this time included credit cards, unsecured loans and Mr B's mortgage – which he hadn't been maintaining properly since 2011. I think those are clear signs of financial difficulties.

I appreciate Loan Extra's credit report was in a different format. And I acknowledge information can vary between credit reference agencies (CRAs) - and not all payday lenders may have reported to CRAs at the relevant time. So I can't say for certain all of the information on Mr B's report now was necessarily available when Loan Extra searched in 2012. But I think Loan Extra should reasonably have been aware of those limitations on the information it got from a borrower's credit file - and taken that into account when it considered Mr B's applications here.

I'm satisfied Loan Extra *could* see (from its credit search) that Mr B had several accounts in arrears when he asked for his first loan. Given his relatively high monthly income, I find it surprising Mr B couldn't maintain his existing debt repayments. And I think the fact the arrears were over several months in duration suggests Mr B probably wasn't just experiencing some temporary difficulties. So, given the somewhat limited information Loan Extra had about Mr B's finances overall, I think it would have been reasonable to make some further enquiries before lending.

Loan Extra's internal assessment process at the time included an opportunity for manual intervention - to get more information including possibly requesting 30 days bank statements. And I'm not persuaded it would have been too difficult or disproportionate for Loan Extra to get similar information from Mr B here before it approved his first loan. It was

open to Loan Extra to ask Mr B about the arrears, for example – or request a detailed breakdown of essential outgoings or bank statements.

From the evidence I've seen, I'm satisfied Mr B was borrowing regularly from other payday lenders for at least a year before he approached Loan Extra. He'd borrowed about £1,000 from another payday lender shortly before Loan Extra approved the first loan. And I think it's more likely that not Loan Extra would have realised Mr B was struggling to pay even priority debts in July 2012, if it had done some more reasonable and proportionate checks then. In which case, I consider a responsible lender would probably have declined Mr B's first application.

Loan Extra went on to approve two more loans and decline several applications from Mr B over the next few months - sometimes making those decisions just days apart. Loan Extra hasn't explained why some applications were acceptable and others weren't. And I've seen no evidence to suggest Mr B's finances fluctuated significantly during that time. So, on balance, I'm not persuaded any of these loans are likely to have been affordable.

I accept Mr B applied for the loans – and borrowers have some responsibility to consider affordability for themselves. But I'm not persuaded that overrides Loan Extra's obligation to lend responsibly. And, for the reasons I've given, I'm satisfied it was irresponsible to approve this lending in all of the circumstances.

Mr B's had the benefit of the capital so I consider it fair he should repay that. I find Loan Extra should take back the outstanding debt and refund interest and charges on all of the loans plus interest. That refund should be applied to reduce any outstanding capital, with any balance paid to Mr B. Loan Extra should also take the steps necessary to ensure all information recorded about these loans is removed from Mr B's credit file.

I've explained why I think Loan Extra shouldn't have lent Mr B this money. I agree with our adjudicator this irresponsible lending is likely to have made an already very stressful and worrying time even more difficult for Mr B. So I find it fair and reasonable that Loan Extra should pay Mr B £100 compensation for distress and inconvenience.

### **my final decision**

My decision is I uphold this complaint. In full and final settlement I require Adlington House Limited (trading as Loan Extra) to:

1. take back the debt and refund interest and charges on all of Mr B's loans;
2. pay interest on that refund at 8% simple a year from the date of payment to the date of settlement;
3. apply the refund to reduce any capital outstanding and pay any balance to Mr B;
4. take steps to ensure any information about the loans is removed from Mr B's credit file;
5. pay Mr B £100 compensation for the upset and trouble he's experienced as a result of Loan Extra approving the loans.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 August 2016.

Claire Jackson  
**ombudsman**