Financial Ombudsman Service

complaint

Mr N has complained about short-term loans granted to him by Inventive Finance Limited trading as Ladder Loans ("Ladder Loans" or "the lender").

background

Ladder Loans agreed two loans for Mr N in 2012. Mr N says these loans were unaffordable for him. And that Ladder Loans would have known this and should not have lent to him.

One of our adjudicators has looked into Mr N's complaint already. He recommended that it be upheld and that Ladder Loans refunds the interest and charges that Mr N paid for his loans. Ladder Loans didn't agree with this recommendation and so the case has come to an ombudsman for a final decision.

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

In making this decision I have considered whether Ladder Loans did everything it should have when assessing Mr N's credit applications. And, following on from this, I have thought about whether any assessment failings resulted in Ladder Loans agreeing to lend to Mr N when it should reasonably have known that it would be difficult for him to repay.

It appears that Mr N took out two loans from Ladder Loans in 2012: one in August, one in October. Both loans were for £1,500 and, I understand that these were 'instalment loans' i.e. Mr N agreed to repay his loan and interest over several instalments. Mr N has provided his bank statements which show the loan credits and repayments. I can see he repaid the first in its entirety in September and the second in instalments of over £200 a month.

Ladder Loans says that it carried out credit checks and asked Mr N about his income when he applied for each loan. Ladder Loans says that the August check showed four outstanding commitments and the October check showed three. The lender says that it had enough information to make a lending decision, given that the size of Mr N's agreed monthly repayments were less than £250.

I appreciate that the relevant guidance from the Office of Fair Trade was not prescriptive regarding what checks should have been carried out. However, Ladder Loans had a responsibility to carry out proportionate checks to ensure the loans it agreed for Mr N were *sustainably* affordable for him.

Ladder Loans has provided its credit check results. I can see from these that the August 2012 credit check does show four active credit accounts, three of which are long-term, one of which had been taken out that June. However, this check also shows that Mr N had settled five accounts which had also been taken out in June and one which had been taken out in July. The October check actually shows four active accounts – his three long-term accounts and one taken out in August. This check also shows that Mr N had settled eight loans taken out in June, four taken out in July and five taken out in August.

Ladder Loans says that there was no requirement for it to check Mr N's expenditure. While this is true, I think the results of the credit check should have alerted Ladder Loans to the possibility that Mr N's existing and ongoing commitments might have impacted on his ability to repay its loans. Given the size of the loan capital Mr N was taking on and the period over which he was committing to repay it, I think Ladder Loans should have enquired further into his financial circumstances before agreeing to lend to him. It could have asked him for information about his expenditure or asked to see his bank statements, for example.

Throughout 2012 Mr N was repaying both long and short-term loans. While Mr N's monthly pay of approximately £1,900 might suggest he could potentially afford his repayments to Ladder Loans, his monthly credit commitments meant that this lending was unaffordable for him. In July, for example, in addition to his rent of about £700 and long-term loan repayments of £350, Mr N repaid over £3,500 to short-term lenders. In August he repaid £3,000 to short-term lenders and over £6,000 in September, including almost £1,600 to Ladder Loans.

Mr N's financial circumstances fluctuated throughout the year. I can see from his bank statements that he had a large deposit into his account in February 2012, which I understand was from a property sale. And he also received a large refund in September, which appears to be from gambling funds. However, Mr N was spending regularly on gambling at a level which far exceeded his means and, it seems to me, eroded any additional capital he may have acquired.

Mr N says *"these loans… were part of a number that trapped me into a debt spiral, with the loan repayments taking a huge chunk out of my wages, so then I had to borrow again from you and from other payday lenders to cover my next month's living expenses."*

Altogether, had Ladder Loans carried out what I consider would have been reasonable and proportionate checks when Mr N applied for his loans I think it would have understood that his existing credit commitments and living expenditure meant he could not sustainably manage to repay further lending. So I think it should not have agreed to lend to him.

In order to put this right, Ladder Loans should:

- refund all interest and charges for Mr N's loans taken out in August and October of 2012.
- 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 N's credit file.

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

my final decision

For the reasons set out above, I uphold this complaint and direct Inventive Finance Limited (trading as Ladder Loans) to pay Mr N compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 25 November 2016.

Michelle Boundy
ombudsman