

complaint

Mr K has complained about a personal loan Everyday Lending Limited, trading as Everyday Loans, provided to him. He says Everyday Loans shouldn't have given him the loan as it was unaffordable.

background

Mr K took out a loan for £1,500 with Everyday Loans in June 2016, to be repaid over 24 months. The total amount to be repaid was £3,807.60, with monthly payments of £158.65.

One of our investigators looked at Mr K's complaint and thought Everyday Loans had acted irresponsibly in lending to him. Everyday Loans disagreed with our investigator, and so the complaint has been passed to me.

my findings

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

The relevant rules and guidance say that businesses must act responsibly when lending to consumers. Businesses must consider the potential for the lending to adversely impact the consumer's financial situation and the consumer's ability to make the repayments as they fall due over the life of the agreement.

Businesses must assess whether the consumer could afford to meet the repayments in a sustainable manner, without incurring financial difficulties or significant adverse consequences. This means the consumer should be able to make repayments on time, while meeting other reasonable commitments and without having to borrow to meet the repayments.

And that affordability assessment must be proportionate to the specific circumstances of the lending. So, for example, the checks will generally have to be more thorough the higher the amount to be repaid, the lower the consumer's income or the longer the term of the loan.

As part of its affordability assessment, Everyday Loans carried out a credit search to check Mr K's credit history and outstanding debt. It also asked Mr K for copies of his recent bank statements and did an income and expenditure calculation to work out if he could afford the monthly repayments. And I've seen copies of all of these.

The bank statements confirmed Mr K's income was around £1,400 per month. The income and expenditure calculation showed Mr K's rent as £250 per month, his living expenses as around £800 per month and that he was making payments of around £180 per month towards other debts. This then showed he had a monthly disposable income of just over £200, or just under £50 once the repayments for this loan were taken into account.

But the results of the credit search and Mr K's statements show his monthly repayments for other debts were much higher than £180 per month. The statements showed Mr K making repayments averaging more than £400 each month and the credit search listed repayments of over £1,000 towards outstanding balances of over £2,500. So it's not clear where Everyday Loans got the figures in its income and expenditure calculation from.

As Everyday Loans had the results of the credit search and copies of Mr K's statements, I don't think it was reasonable for it to rely solely on an income and expenditure calculation that the search and statements showed to be inaccurate. I also note Everyday Loans' records show this loan was to be used to consolidate Mr K's payday loans. But it's not clear which loans were to be consolidated and Everyday Loan's income and expenditure calculation doesn't show any current payments to be consolidated. So I don't think Everyday Loans carried out proportionate checks to assess whether Mr K could afford to meet the repayments for this loan in a sustainable manner, and I think it should have looked further into his financial situation and how this loan would affect it before lending to him.

I can't say for sure what more proportionate checks would've shown. But I've seen copies of Mr K's bank statements for the three months before this loan and a copy of his credit file. And, in the absence of evidence to the contrary, I think it's likely these give a good indication of Mr K's financial circumstances at the time.

Mr K's credit file showed he was in arrears on several accounts and had defaulted on another account in the six months before this loan. The bank statements show Mr K was going into his overdraft more frequently and by larger amounts over the months before this loan. They also show Mr K had a number of short-term loans, including two for a total of £400 taken out in the month before this loan. And they show a significant number of cash withdrawals and gambling transactions. These can all suggest a consumer is struggling to manage their finances.

I think these statements and credit file show Mr K was having difficulty managing his finances and may have had a problem with gambling and been reliant on other lending to meet his existing outgoings. So I think they show it was unlikely Mr K could afford to meet the repayments for this loan in a sustainable way and that it wouldn't be responsible to lend to him.

I think more proportionate checks would've shown similar information to that on the statements and credit file. And so I think more proportionate checks would also have shown it was unlikely Mr K could afford to meet the repayments for this loan in a sustainable way and that it wouldn't be responsible to lend to him.

So I think Everyday Loans acted irresponsibly in providing Mr K with this loan.

As Mr K ended up paying interest and charges on a loan he shouldn't have been given, I think he has lost out as a result of what Everyday Loans did wrong.

putting things right

Everyday Loans shouldn't have given Mr K the loan. I understand there may be an outstanding balance on the loan. Everyday Loans should therefore:

- Remove all interest, fees and charges from the outstanding balance on the loan, and treat any repayments made by Mr K as though they had been repayments of the principal.

If this results in Mr K having made overpayments, Everyday Loans should refund these overpayments plus 8% simple interest* calculated on the overpayments, from the date the overpayments would have been made, to the date the complaint is settled.

If there is an outstanding balance then Everyday Loans should agree an affordable repayment plan with Mr K.

- Remove any adverse information recorded on Mr K's credit file in relation to this loan.

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

my final decision

For the reasons given above, I uphold Mr K's complaint. Everyday Lending Limited, trading as Everyday Loans, should put things right by doing what I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 9 April 2020.

Alan Millward
ombudsman