DRN-3373763

## The complaint

Mrs C complains through her representative that Progressive Money Limited (PML) lent her money on a high interest loan which she was unable to afford to repay.

## What happened

PML provided a loan to Mrs C on 10 October 2018, of £12,000 repayable over 60 months at the rate of £415 a month.

Mrs C said she couldn't afford the repayments on the loan, and had to take out further loans with other providers to keep up her repayments. She has since entered into a debt management plan.

PML explained that the loan was for consolidation of Mrs C's then debts, paying off seven loans and paying the remainder of £4,278 to Mrs C so she could pay off her overdraft. Its application process consisted of a lengthy call with Mrs C discussing her application, obtaining, and considering a credit report, two months payslips and recent bank statements from a current and deposit account. It said the loan instalments were affordable after repayment of those credit commitments.

Our adjudicator said that Mrs C had a credit card account with a history of going over the limit. And that her total monthly credit repayments at the time she took out the loan represented a significant proportion of her income. She said there was a significant risk that Mrs C wouldn't have been able to meet her existing commitments without having to borrow again.

So, she thought it was unlikely Mrs C would've been able to sustainably meet her repayments for this loan. She said that PML hadn't made a fair lending decision.

PML disagreed. It said reasonable steps were taken to assess Mrs C's ability to make repayments in a sustainable manner, without her incurring financial difficulties or experiencing significant adverse consequences. She benefited from the PML loan as a number of her creditors were consolidated and she had a reduction in her monthly expenses.

The matter has been passed to me for further consideration.

## What I've decided – and why

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

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did PML complete reasonable and proportionate checks to satisfy itself that Mrs C would be able to repay the loan in a sustainable way?

- If not, would those checks have shown that Mrs C would have been able to do so?

The rules and regulations in place required PML to carry out a reasonable and proportionate assessment of Mrs C's ability to make the repayments under the agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so PML had to think about whether repaying the loan would be sustainable. In practice this meant that PML had to ensure that making the repayments on the loan wouldn't cause Mrs C undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for PML to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Mrs C**.** Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications. I think that such a check ought generally to have been *more* thorough:

- The *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income).

- The *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income).

- The *greater* the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

Mrs C had a low income, and the loan was for a high amount and required a considerable commitment from Mrs C. So PML should have carried out a thorough assessment of Mrs C's financial circumstances at the time of the application.

When Mrs C approached PML, she was in difficult position. She had taken out six loans since April 2018, including one with a balance on it of about £9,900. Had she made all the monthly payments in respect of payday loans and other loans, and made minimum payments on her credit cards and mail order account, she would have been paying about £1,700 a month, or around 73% of her income, on credit commitments. That was clearly unsustainable. But several of those accounts would have had only one or two payments left to pay. So I doubt whether subsuming those small balances into one big loan, and extending the payment period by 5 years, was really in her best interests.

Further, although several loans were paid off, Mrs C was still left with the one large loan, of about £9,900 with a payment of £385 a month. And she was left with an email order account and several small credit card accounts. So she still had credit commitments, with the new loan instalment, of around £810 a month, to fund from an income of around £2,300 a month.

Mrs C's expenditure on other living expenses I calculate was about £1,377 a month, though I note a £0 figure for electricity was put forward. Adding the credit commitments this would have left her with a disposable income before the electricity costs of around £155.

PML, after paying off the various loans released a payment to Mrs C of around £4,200, ostensibly to pay off her overdraft. However according to the statements supplied her maximum overdraft was about £760. This meant that even if she had been assiduous in paying off the credit cards and mail order account she would have been paying the loan instalments on an extra £2,000 odd which by all accounts she had to use for living expenses.

So I think overall the loan was unaffordable to Mrs C. She still would have been paying about 35% of her income on credit commitments, was left with a low disposable income and had her payday loans extended into a five year loan.

So I don't think PML made a fair lending decision.

**Putting things right**

Mrs C has had the capital payment, so it's fair that she should repay this. So far as the loan is concerned I think PML should refund all interest and charges as follows:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Mrs C as payments towards the capital amount of £12,000.
- If Mrs C has paid more than the capital, refund any overpayments to him with 8%* simple interest from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, PML should come to a reasonable repayment plan with Mrs C.
- Remove any adverse information about the loan from Mrs C's credit file.

*HM Revenue & Customs requires PML to deduct tax from this interest. It should give Mrs C a certificate showing how much tax it's deducted if she asks for one.

**My final decision**

I uphold the complaint and require Progressive Money Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 29 April 2022.

Ray Lawley
**Ombudsman**