DRN-3386560

The complaint

Mrs N complains that Progressive Money Limited (PML) lent her money on a high interest loan which she was unable to afford to repay, and that it refused to freeze interest payments when she entered a debt management plan.

What happened

PML provided a loan to Mrs N on 30 October 2017, of £5,000 repayable over 48 months at the rate of £202 a month.

Mrs N said she couldn't afford the repayments on the loan and had to take out a further loan to keep up with her repayments. She has since entered into a debt management plan. She complained also that when she approached PML to freeze interest payments it declined to do so, saying it was not obligated to stop or reduce the contractual interest due on the loan. As a result of her debt management plan she reduced the payments on the loan to around £44 a month. I understand that in June 2021 the loan was sold on to a third party.

PML assessed the affordability of the loan by going through Mrs N's online application with her in detail over the phone, carrying out a credit search and obtaining evidence of Mrs N's income from employment, child maintenance and benefits including tax credits. Mrs N had an outstanding loan with a balance of £3,171 which was paid off by the new loan, with the balance of £1,829 being transferred to her bank account. PML assessed that she had a monthly disposable income of around £230 after payment of all her outgoings including the new loan instalments.

Our adjudicator said that although Mrs N was to use the loan to pay off another loan, she would have still had to pay a significant proportion of her income each month towards her remaining credit commitment and this new loan. So, she said there was a significant risk that Mrs N wouldn't have been able to meet her existing commitments without having to borrow again. So, she thought it unlikely that Mrs N would've been able to sustainably meet her repayments for the loan over the term.

PML disagreed. It said it had conducted a thorough review of Mrs N's income and expenditure by both taking Mrs N's testimony, and then corroborating that with her payslips and bank statements. It said it had taken all the relevant rules, guidance, and good industry practice into account. In light of the information obtained and verified during the application process, there was no reason to believe that Mrs N would be unable to afford and sustain the monthly payment of £202 for a term of 48 months.

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 N would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Mrs N 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 N'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 N 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 N**.** 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 N had a low income, and the loan required a considerable commitment from Mrs N. So PML should have carried out a thorough assessment of Mrs N's financial circumstances at the time of the application.

I've noted what PML says about the affordability assessment that it did when Mrs N took out the loan. Mrs N's stated purpose for taking out the loan was to reduce her outgoings towards Christmas and to pay off one of her loans. She had two loans outstanding, for £3,171 and for £24,427. She was paying monthly instalments of respectively £162 and £457 for those loans. The new loan paid off the smaller loan, the balance of £1,829 being transferred to Mrs N. Although the PML loan was a lower interest rate, it effectively extended the term of that loan by another four years.

PML assessed that, with benefits, maintenance and tax credits Mrs N had a monthly disposable income left of about £230 when taking into account all her outgoings including the new loan. I think it is fair to take into account those other sources of income where they appeared to be stable for the period of the loan. I understand that Mrs N's position changed and she lost the tax credits soon after receiving the loan. But I can only look at the position as it was at the time of applying for the loan.

However I have difficulty understanding how the new loan benefitted Mrs N's overall situation. It didn't reduce her outgoings, it increased them by £40 a month. And although Mrs N had a cash injection in the run up to Christmas which was no doubt helpful to her, it didn't help her overall financial situation.

With regard to Mrs N's disposable income, it's not just the pounds and pence that we consider in terms of affordability. It would have been tight for her, bearing in mind she had to run a car. Before the loan she had credit commitments of around 35% of her income. I think that that would have been unlikely to be sustainable over the period of the loan. She had no other loans or credit she could pay off to bring down her outgoings, so the new loan increased that to almost 38% of her income.

So I think the loan was unaffordable. It increased Mrs N's credit commitments and didn't achieve her desire to reduce her outgoings. I don't think PML made a fair lending decision.

As for the request to freeze the interest payments, I don't know what the full arrangement was in respect of Mrs N's debt management plan, so I can't comment on the interest position. Generally if a customer has difficult financial circumstances, businesses are expected to be sympathetic and shouldn't for example impose interest charges that make it impossible to pay off the loan within a reasonable period of time. However in light of my findings and my final decision below, the question of the interest and any other charges on the loan will be dealt with.

Putting things right

Mrs N has had the capital payment in respect of both loans, 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 N as payments towards the capital amount of £5,000.
- If Mrs N has paid more than the capital, refund any overpayments to her 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 N.
- Remove any adverse information about the loan from Mrs N's credit file.
- As PML sold the outstanding debt to a third-party it should do what it can to buy it back - if it can't then it can't deduct any outstanding balance from the redress and it needs to work with the third-party to bring about the steps above.

*HM Revenue & Customs requires PML to deduct tax from this interest. It should give Mrs N 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 N to accept or reject my decision before 2 May 2022.

Ray Lawley
Ombudsman