DRN-3427956

The complaint

Miss W complained that Everyday Lending Limited trading as Everyday Loans lent to her irresponsibly and provided lending that was unaffordable.

What happened

Miss W took out loans with Everyday Loans as follows:

Loan	Date taken	Loan amount	Term	Monthly payment	Amount repayable
1	30/05/2018	£3,100	36 months	£185.88	£6,691.68
2	02/04/2019	£4,000	36 months	£216.21	£7,783.56

When Miss W complained to Everyday Loans it didn't uphold her complaint so she brought her complaint to us.

One of our adjudicators looked at the complaint and she didn't think Everyday Loans should have provided either of these loans. Our adjudicator set out directions indicating what Everyday Loans should do to put things right.

Everyday Loans agreed with what our adjudicator had recommended in respect of loan 2 but disagreed that it had done anything wrong when it provided loan 1. So, as the complaint hasn't been resolved, it comes to me for a decision.

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 of the relevant rules, guidance and good industry practice - on our website. Having thought about everything, I agree with our adjudicator for broadly the same reasons.

As Everyday Loans has agreed to uphold Miss W's complaint about loan 2 and do what is needed to put things right in line with our adjudicator's recommendation, then I don't need to consider this loan further save to include it in the redress. In my decision, I'm concentrating on loan 1.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation – a proportionate check might also require the lender to find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

Everyday Loans asked Miss W about her income and expenses – including what she spent on her credit commitments. It also did its own credit check to understand Miss W's credit history. Everyday Loans recorded Miss W's monthly take home pay was around £1,421 based on the information it saw on bank statements she provided during the loan application process. Everyday Loans also took into account nationally available statistics when thinking about Miss W's likely spending and included an additional 'buffer' to account for any change in circumstances or one-off additional expenses. Based on this, Everyday Loans said Miss W should've been able to afford the monthly repayment on this loan as she should expect to have around £596 spare cash left after paying for this loan as she was using it to clear other debt currently costing her around £958 each month.

I've taken carefully into account everything Everyday Loans has said in response to our adjudicator's assessment about the way it assessed affordability. And I've thought carefully about what I think a responsible lender should have made of all this information and in particular whether it was enough for Everyday Loans to make a fair decision to lend.

I think Everyday Loans checks before lending were proportionate. But I don't think Everyday Loans thought carefully enough about what the information it had gathered revealed about Miss W's overall financial situation. I think it had enough information in front of it to realise that this loan looked unsustainable for Miss W.

I think Everyday Loans should have been concerned to see the level of Miss W's recent borrowing activity. And that when Miss W applied for this loan, it worked out that her debt servicing costs to existing creditors were already around £1,150 monthly – equivalent to approximately 80% of her take home pay.

Like our adjudicator, I think that this amount was such a significant proportion of her income it was a clear indication that Miss W had become over-reliant on credit and, in reality, was already experiencing financial difficulty.

I think Everyday Loans should've realised that Miss W's borrowing had got beyond her control and that further lending was likely to add to her financial difficulty and be detrimental to her.

I've taken into account that Everyday Loans understood that the loan would go towards debt consolidation – in other words, Miss W said she would use the loan to repay other debt. But Everyday Loans didn't have control over how Miss W used the loan as it paid the loan balance to her. And I think the scale of her overall debt compared to the lesser value of the loan and the extent of her evident reliance on taking out expensive credit would suggest that she would remain in serious financial trouble regardless – which is borne out by what happened in the event.

So I don't think Everyday Loans should've provided this loan.

Putting things right

Our adjudicator didn't recommend that Everyday Loans should pay any additional redress. Miss W hasn't commented on that and I haven't seen anything which makes me think Everyday Loans acted unfairly towards Miss W in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Miss W to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has been charged extra for loans that should not have been provided to her.

In line with this Service's approach, Miss W shouldn't repay more than the capital amount she borrowed.

If Everyday Loans sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Everyday Loans should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Miss W received as a result of having been given loans 1 and 2. The repayments Miss W made should be deducted from this amount.
- If this results in Miss W having paid more than she received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then Everyday Loans should attempt to arrange an affordable/suitable payment plan with Miss W bearing in mind the need to treat her positively and sympathetically if she still needs further time to pay what she owes.
- Whilst it's fair that Miss W's credit file is an accurate reflection of her financial history, it's unfair that she should be disadvantaged by the decision to lend loans that shouldn't have been provided. So Everyday Loans should remove any negative information recorded on Miss W's credit file regarding loans 1 and 2 .

*HM Revenue & Customs requires Everyday Loans to deduct tax from this interest. Everyday Loans should give Miss W a certificate showing how much tax has been deducted if she asks for one.

My final decision

I uphold Miss W's complaint and direct Everyday Lending Limited trading as Everyday Loans to take the steps I've set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 2 June 2022.

Susan Webb
Ombudsman