DRN-3430060

The complaint

Mr C says Everyday Lending Limited (trading as Everyday Loans) irresponsibly lent to him.

What happened

This complaint is about a fixed term loan taken out by Mr C in May 2017 with Everyday Loans. The loan was for £5000 and Mr C agreed to repay over 48 months.

Our investigator upheld Mr C's complaint and thought Everyday Loans shouldn't have provided the loan. He concluded that Everyday Loans didn't make a fair lending decision based on the information it had in front of it. Everyday Loans disagreed and the complaint was passed to me.

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 carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr C's complaint. These two questions are:

1. Did Everyday Loans complete reasonable and proportionate checks to satisfy itself that Mr C would be able to repay loans in a sustainable way and without experiencing significant adverse consequences?

   - If so, did it make a fair lending decision?
   - If not, would those checks have shown that Everyday Loans would've been able to do so?

2. Did Everyday Loans act unfairly or unreasonably in some other way?

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

The checks had to be "borrower" focused – so Everyday Loans had to think about whether repaying the loan would be sustainable and cause significant adverse consequences *for Mr C*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Mr C undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Everyday Loans to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr 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.

In light of this, I think that a reasonable and proportionate 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 of time 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).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr C's complaint.

Did Everyday Loans complete reasonable and proportionate checks to satisfy itself that Mr C would be able to repay the loan in a sustainable way?

Everyday Loans has provided evidence to show that before lending to Mr C it asked him for information about his income and expenditure. It also carried out a credit check and obtained 2 months' worth of bank statements. Before it agreed to give Mr C this loan, it also verified his income by requesting payslips. Based on those checks Everyday Loans thought it was fair to lend.

Mr C was entering into a significant commitment with Everyday Loans. He was agreeing to make monthly repayments for a period of 4 years. So, I think it is right that Everyday Loans wanted to gather, and independently check, some detailed information about Mr C's financial circumstances before it agreed to lend to him. I think that the checks it did were sufficient to achieve that aim. I think Everyday Loans' checks were proportionate.

Did Everyday Loans make a fair lending decision?

I have concluded Everyday Loans made proportionate checks. But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information those checks show. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. This is what I think Everyday Loans should have done with this loan.

Everyday Loans obtained bank statements from Mr C when he applied for his first loan. It gathered two months' worth. On these statements there are many transactions going in and out of his account from short term loan and payday loan providers. Mr C was, within these statements, borrowing from 6 different short-term finance providers. He was lending and repaying from these companies on a regular basis during a short space of time and I think there is enough here in the statements that Everyday Loans had in front of it, for me to draw a conclusion that Mr C was in a cycle of debt and was borrowing in order to repay what he owed. I think the transactions to and from short term lenders on his statements, show that Mr C was having problems managing his finances at that time and on seeing this Everyday Loans shouldn't have made a decision to lend to him. Everyday Loans has recently told our service that it asked Mr C about this and then accepted his answer, which was that he had serious problems with his car. But I don't think Everyday Loans reacted appropriately to the information it had in front of it. The sheer number of short term loans that he took out leading up to him asking for a loan with it, ought to have given Everyday Loans serious concerns about Mr C's finances and his ability to repay this loan in a sustainable way.

In conclusion, I don't think, based on what Everyday Loans had in front of it, that it should have given Mr C this loan.

Everyday Loans needs to put things right.

Did Everyday Loans act unfairly or unreasonably in some other way?

I've also thought about whether Everyday Loans acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right

- refund all interest and charges Mr C paid on the loan;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about the loan from Mr C's credit file;

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

My final decision

For the reasons given above, I'm upholding Mr C's complaint. Everyday Lending Limited should put things right for Mr C as set out above.

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

Mark Richardson
Ombudsman