DRN-4612054

The complaint

Mr B complains that PDL Finance Limited, trading as Mr Lender ("Mr Lender"), lent to him irresponsibly. Mr B says at the time he was lent to he was dependent on credit. Finally, he is also unhappy about the amount of interest charged and that he was allowed to deferral payment on two occasions.

What happened

Mr B was advanced one loan of £200 on 3 May 2023. He was due to make three monthly payments of varying amounts, with the largest repayment being £117.86 and the smallest being £82.57. Mr B deferred the first payment on two occasions by paying the interest only and the loan was repaid on 18 August 2023.

Mr Lender issued its final response letter and it explained that it checks showed the loan was affordable. The complaint wasn't upheld. Unhappy with this response, Mr B then referred his complaint to the Financial Ombudsman Service.

One of our investigators looked at the complaint and issued his view explaining why he wasn't going to uphold Mr B's complaint. He thought the checks Mr Lender carried out showed that Mr B would likely be able to afford his repayments.

Mr B didn't agree with the investigator's assessment saying in summary:

- He was over his credit limit on two different credit cards.
- Mr B was fully utilising a £1,000 overdraft on a current account and £2,000 on another and this shows the lending wasn't responsible.
- Mr B used this loan to reduce his indebtedness on one of his overdrawn credit cards.
- The high interest rate meant he *"… was quickly reliant on other avenues of credit to get by…."*

As no agreement could be reached the complaint has been passed 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.

Mr Lender had to assess the lending to check if Mr B could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances.

Mr Lender's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr B's income and expenditure. I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Mr Lender should have done more to establish that any lending was sustainable for Mr B. These factors include:

- Mr B having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mr B having a large number of loans and/or having these loans over a long period (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr B coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr B. But I don't consider that this applied to Mr B's circumstances given only one loan was advanced.

Mr Lender was required to establish whether Mr B could sustainably repay the loan – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr B was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr B's complaint.

Having considered everything that Mr Lender did before it lent this loan – along with the comments Mr B has provided, I am satisfied that a proportionate check was carried out by Mr Lender which showed it, that Mr B would likely be able to afford his repayments, and I've explained my reasoning below.

For this loan, Mr Lender asked Mr B to declare his income and expenditure and it also carried out a credit search. Mr B declared that his net monthly income was £1,675 a month. Mr Lender said it verified this figure by using a tool provided by a credit reference agency. For a modest first loan, I think it was reasonable for Mr Lender to have used this income figure for its affordability assessment.

Mr B was asked to declare monthly outgoings across a number of different categories including mortgage / rent, credit commitments, utilities and travel to name a few. Mr Lender also used information it received from the credit report and data from the Office of National Statistics to compare what Mr B had declared. As a result of this for the purpose of its affordability assessment, Mr Lender believed Mr B's monthly outgoings were around £1,090 per month. Based solely on the income and expenditure information Mr Lender gathered, Mr B had potentially enough disposable income to afford the largest repayment for the loan.

Before the loan was approved Mr Lender also carried out a credit search and it has provided the Financial Ombudsman with a summary of the results it received from the credit reference agency. I want to add that although Mr Lender carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. This can mean that the results a lender may see could be different to the information that a consumer may be able to view in the credit report they can download from a credit reference agency.

However, if the information given to Mr Lender indicated that Mr B was either in financial difficulties or couldn't afford the loan, then I would expect it to react to that and possibly take a different course of action. However, if the credit check results didn't show any signs of on-going repayment problems or showed that Mr B was over his credit limits and / or utilising his overdrafts then I wouldn't expect it to have investigated any further.

Having looked at the credit results summary Mr Lender has provided, there wasn't anything in my view, that would've led Mr Lender to have carried out further checks. It knew Mr B wasn't insolvent either through an Individual Voluntary Arrangement, bankruptcy or had a County Court Judgement within the three years preceding the loan.

It was also told that Mr B didn't have any outstanding "*AAI*" – which means advanced against income which is another name for a payday loan. So, the information Mr Lender received suggested that Mr B wasn't reliant on payday loans at the time. The information, Mr Lender collected from Mr B also didn't suggest that he was reliant on other loans.

The credit checks results received by Mr Lender also didn't appear to indicate that either Mr B was fully utilising his overdrafts or was over his credit limit on two credit cards because Mr Lender didn't appear to be aware of this it couldn't factor this into its assessment. And as I've said above, there isn't a required standard of credit check so in those circumstances I can't conclude Mr Lender has made an error.

Mr B has said the interest rate on the loan was expensive and I've looked at the loan agreement, and had he repaid the loan as expected and in line with the agreement he would've been charged £98.90 worth of interest.

This is well below the cost cap introduced by the industry regulator, that in effect says that a lender can't collect more than 100% of the amount borrowed in interest, fees or charges. In Mr B's complaint that would mean Mr Lender couldn't collect more than £400. Even with the deferrals – which I will come on to below, Mr B paid around £162 of interest, which is still below the cost cap.

While this borrowing is more expensive than other mainstream forms of credit, I can't say Mr Lender has made an error with the amount that it charged, because it has complied with the industry cost cap as well as the costs outlined in the credit agreement.

Finally, Mr B is unhappy about how easy it was for him to defer his first payment on two occasions by only paying the interest. I've thought carefully about this with reference to the regulations. But the regulations allowed Mr Lender to offer up to two deferrals before taking any form of forbearance action. Therefore, as there were only two payment deferrals, I can't say that Mr Lender has made a mistake here by either offering this option or by Mr B taking advantage of it.

Overall, it was reasonable for Mr Lender to have relied on the information that Mr B provided about his income and expenditure as well as the credit check results that Mr Lender received. The checks Mr Lender carried out were proportionate and showed that Mr B should be able to afford the repayments. There also wasn't anything else to suggest the loan would either be unaffordable or unsustainable for him.

I am therefore not upholding Mr B's complaint.

My final decision

For the reasons I've outlined above, I am not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 26 March 2024.

Robert Walker
Ombudsman