The complaint

Mrs M complains PDL Finance Limited trading as Mr Lender ("Mr Lender") gave her loans without checking whether she could afford to repay them.

What happened

A summary of Mrs M's borrowing can be found below.

loan number	loan amount	agreement date	repayment date	number monthly instalments	largest repayment per loan
1	£300.00	27/08/2018	25/02/2019	6	£119.60
2	£500.00	02/04/2019	25/03/2020	6	£179.90

The loans were structured so that payments decreased each month. Mrs M had some problems repaying her final loan and was only able to do so after agreeing a repayment plan.

Following Mrs M's complaint, Mr Lender wrote to her to explain that it wasn't going to uphold the complaint about the loans because it had carried out proportionate checks before lending. Unhappy with this response, Mrs M referred the complaint to the Financial Ombudsman.

An investigator then considered the complaint, and she didn't uphold it because she agreed the checks Mr Lender conducted were proportionate and showed it that Mrs M would likely be able to afford her repayments.

Mrs M didn't agree saying Mr Lender took advantage of her financial situation and these loans made her position worse. She also says adequate checks were not carried out. As no agreement could be reached, the case 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.

We've set out our general approach to complaints about this type of lending - including all the relevant rules, guidance and good industry practice - on our website. And I've used that to help me decide this complaint.

Mr Lender had to assess the lending to check if Mrs M could afford to pay back the amounts she'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 Mrs M's income and expenditure.

With this in mind, 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 Mrs M. These factors include:

- Mrs M 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);
- Mrs M having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mrs M 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 Mrs M. The investigator didn't think this applied to Mrs M's complaint and I agree, considering the number and value of the loans.

Mr Lender was required to establish whether Mrs M could *sustainably* repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Mrs M was able to repay her 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 Mrs M's complaint.

Mr Lender says that for both loans it took details of Mrs M's income and expenditure, carried out a credit search and verified her employer. However, for loan 1, Mr Lender says the information it gathered about her income and expenditure is no longer available – this is likely due to how long ago the loan was advanced. So, I don't know the exact information that Mrs M declared to Mr Lender when the loan was given.

But Mr Lender, for a first loan would've been entitled to have relied on the information given to it, even if it wasn't entirely accurate or reflective of Mrs M's actual financial position. If the information was the same or similar as what was declared for loan 2, then I think it's fair to say that Mrs M declared information to Mr Lender likely indicated that loan 1 would've been affordable.

For loan 1, Mr Lender has been able to provide the credit search result data and I comment on that below. In addition, loan one, was repaid without any obvious difficulties, so I don't think it would've been unreasonable for Mr Lender to have conducted the same sort of checks before loan 2 was advanced.

When loan 2 was advanced, Mrs M declared her monthly income was £1,160. No further checks were undertaken on Mrs M's income but for a second loan, where the first one had been repaid without any difficulties, it was entirely reasonable for Mr Lender to have relied on this self-declared income.

Mrs M declared monthly outgoings of £845 – this was across a number of different categories including rent/mortgage, utilities, food, transport and other credit commitments to name a few. Based solely on the income and expenditure information Mr Lender gathered, Mrs M had enough disposable income to afford the largest repayment for the loan.

Before each loan was approved, Mr Lender 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.

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

In addition, it was also told that Mrs M had one outstanding "*AAI*" loan when both loans 1 and 2 were granted. An AAI loan is another name for a payday loan. But Mr Lender knowing that Mrs M had one outstanding payday loan wouldn't have been enough to have prompted further checks or sufficient to say that Mrs M wouldn't be able to repay the loans in a sustainable manner given all the other information it gathered.

I don't think the information Mrs M declared (or what Mr Lender received from the credit reference agency) would've prompted Mr Lender to have checked the information it was given by Mrs M. This means I don't think it would've needed to have viewed Mrs M's bank statements and therefore it wouldn't have discovered that Mrs M was the sole household earner or had a number of outstanding payday loans, instalment and high-cost credit loans.

Overall, it was reasonable for Mr Lender to have relied on the information Mrs M provided about her income and expenditure as well as the credit check results which showed sufficient disposable income to afford the repayments.

Finally, there also wasn't anything else to suggest that Mrs M was having financial difficulties or that the loan repayments would be unsustainable for her. It therefore follows that I can't uphold Mrs M's complaint about these loans.

My final decision

For the reasons I've set out above, I am not upholding Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 9 April 2024.

Robert Walker
Ombudsman