DRN-4702463

The complaint

Mr G complains that PDL Finance Limited, trading as Mr Lender ("Mr Lender"), lent to him irresponsibly.

What happened

Mr G was given one loan of £200 on 13 February 2019. Mr G was due to make three monthly instalments to Mr Lender of decreasing amounts. Mr G's first and largest instalment was £122.66 with his third and final instalment costing £83.63.

Mr G has had some problems repaying this loan and based on an email he has provided it would seem in July 2019 Mr Lender sold the outstanding balance to a third-party collection agency.

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

One of our investigators looked at the complaint and she explained why she wasn't going to uphold it. The investigator thought the checks Mr Lender carried out showed that Mr G would likely be able to afford his repayments.

Mr G didn't agree with the investigator's assessment saying at the time of the loan he had significant amounts of debt, and he was in a cycle of borrowing from payday loan companies.

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 G 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 G'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 G. These factors include:

- Mr G 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 G 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 G 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 G. But I don't consider that this applied to Mr G's circumstances given only one loan was advanced.

Mr Lender was required to establish whether Mr G 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 G was able to repay his loan 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 G's complaint.

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

Mr Lender asked Mr G to declare his monthly income and expenditure and it also carried out a credit search. Mr G declared that his net monthly income was £1,250 a month. For a first loan, for a modest amount, I think it was entirely fair and proportionate for Mr Lender to have relied on the information Mr G and so I don't think Mr Lender needed to do any more.

Mr G 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 G's monthly outgoings have been recorded as being £550. These total outgoings are quite low, but as part of his application Mr G declared he lived at home with parents so that may have given Mr Lender confidence that he had minimal rent and no other expected living costs such as utilities or council tax.

Based solely on the income and expenditure information Mr Lender gathered Mr G 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 can view in the credit report they can download from a credit reference agency.

However, if the information given to Mr Lender indicated that Mr G was either in financial difficulties or couldn't afford the loan, then I would expect it to react to that information. However, if the credit check results didn't show any signs of ongoing repayment problems, 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 it to have carried out further checks. It knew Mr G 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 for that Mr G had one outstanding "*AAI*" – which means advanced against income which is another name for a payday loan. I don't think Mr Lender being told that there was one active payday loan means that further checks were needed. I say this considering that the loan still appeared affordable even when the payment for this loan was added to Mr G's outgoings.

Mr G has provided a copy of an email between himself and a well-known debt advice charity which shows that due to his level of debt it recommended that Mr G enter a Debt Management Plan (DMP) in 2018.

It isn't clear whether by the time the loan was approved that the DMP had been setup, but it does show that Mr G had debt that needed servicing. However, that wasn't disclosed to Mr Lender as part of the application process and wasn't evidenced in the credit check summary it has provided. Therefore, Mr Lender couldn't factor this DMP into its affordability assessment.

Overall, it was reasonable for Mr Lender to have relied on the information that Mr G provided about his income and expenditure as well as the credit check results that Mr Lender received before the loan was advanced. The checks Mr Lender carried out were proportionate and showed that Mr G 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 G's complaint. An outstanding balance remains due that appears to be held by a third party. Mr G may wish to contact the third party to discuss a way forward.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 15 May 2024.

Robert Walker
Ombudsman