DRN-5020530

The complaint

Mr E complains through a representative that Evergreen Finance London Limited trading as MoneyBoat.co.uk ("MoneyBoat") provided him with loans without properly checking his finances.

What happened

Mr E was granted two loans and a summary of his borrowing can be found below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	largest repayment per loan
1	£500.00	18/11/2019	24/01/2020	6	£161.25
2	£400.00	07/02/2020	26/08/2020	6	£115.07

MoneyBoat considered the complaint and concluded it had made a reasonable decision to lend because it had carried out proportionate checks which demonstrated Mr E could afford his repayments. Unhappy with this response, Mr E referred the complaint to the Financial Ombudsman.

The complaint was considered by an investigator, who said MoneyBoat ought to not have provided either loan because the credit check results it received showed Mr E was already experiencing financial difficulties.

MoneyBoat didn't agree with the investigator's findings saying the credit search results indicated the loans were affordable. But it did say, perhaps for loan 2, given it was taken quickly after loan 1 was repaid, that further checks ought to have been conducted. As no agreement could be reached the complaint has been 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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

MoneyBoat had to assess the lending to check if Mr E could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. MoneyBoat's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr E'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 MoneyBoat should have done more to establish that any lending was sustainable for Mr E. These factors include:

- Mr E 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 E 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);
- Mr E 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 E. The investigator didn't consider this applied to Mr E's complaint as there were only two loans and I would agree.

MoneyBoat was required to establish whether Mr E could sustainably repay the loans – 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 E 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 E's complaint.

Loan 1

Before this loan was approved, MoneyBoat asked for details of Mr E's income, expenditure and carried out a credit search. The results of these checks indicated to MoneyBoat that the loan repayments were affordable.

Mr E declared a monthly income of £2,100 and he declared monthly outgoings of £970. MoneyBoat used a tool provided by a credit reference agency to cross reference the income, and the results of that check indicated the declared figure was likely accurate.

MoneyBoat also used information gathered from Mr E's credit report as well as considering his living costs against averages found in the "*Common Financial Statement*". Having carried out these further checks, it increased Mr E's monthly outgoings by £189 per month. But even with the increased outgoings, MoneyBoat reasonably believed he had around £940 per month in disposable income and so the loan would've appeared affordable.

MoneyBoat also carried out a credit search and I've considered the results it received, and I do have some concerns about what MoneyBoat saw. It knew that Mr E's active loan accounts were costing him £574 each month. And it seems the housing costs that he declared were about half the contracted mortgage repayment.

But, as the investigator said, Mr E had defaulted on two accounts within the previous year one in March 2019 and another in July 2019. Which on their own, may not be sufficient to have led MoneyBoat to have concluded the loan ought not to have been provided. But in addition to these defaults Mr E had a flexible mortgage account – which had a balance and while it had been in a repayment arrangement for some time, as recently as two months before the loan was approved Mr E's account was showing as 2 months in arrears.

Mr E was also significantly in arrears with his water bill which was showing as being six months in arrears and subject to a payment arrangement.

Finally, he had a credit card that was over its limit and had been subject to a payment arrangement for the previous two months. There were also three settled accounts (2 in August 2019 and one in October 2019) – so not that far from the approval date of this loan and all of these loans had either been in arrears at the point the loans were closed or were subject to payment arrangements.

In some situations, it may be appropriate to have suggested that MoneyBoat conduct further checks into Mr E's finances before it granted this loan. However, there were clear signs that Mr E was having difficulties managing priority debt on a mortgage account and had experienced ongoing financial problems with a credit card and had previously had payment problems in repaying other loans.

These difficulties and arrears were close enough to the loan start that MoneyBoat ought to have reasonably concluded that Mr E was experiencing current financial difficulties, give the accounts had again recently entered arrears I do think this information was sufficient for MoneyBoat to not have lent to Mr E.

This has led me to conclude in the months leading up to this loan Mr E had shown difficulty managing his existing credit commitments as such I think MoneyBoat needed to be alert to this and likely have concluded the loan wasn't sustainably affordable for Mr E.

Having thought about everything I am upholding Mr E's complaint about MoneyBoat's decision to provide this loan. I've set out what it needs to do at the end of the decision.

Loan 2

Loan 2 was applied for a few days after Loan 1 was repaid. MoneyBoat conducted exactly the same checks for this loan as it had done so for loan 1. This time Mr E declared monthly income of £1,980 and MoneyBoat says this was once again checked through a tool provided by a credit reference agency.

Mr E declared outgoings of £900 per month, and MoneyBoat once again considered his credit file and the common financial statement, and it increased his monthly outgoings by a further £266. However, this still left £814 in disposable income and so this loan would've looked affordable to it.

MoneyBoat also carried out a credit search and I've considered the results it received, and these showed that Mr E had continued to have difficulties managing his finances. He was still significantly in arrears with his water bill and was still subject to a payment arrangement. While the flexible mortgage product was still subject to the payment arrangement it was now showing as being two months in arrears as of January 2020. Mr E was still over his credit card limit and was still as recently as January 2020 subject to a payment arrangement.

The credit file results showed similar information to loan 1, that Mr E was continuing to have difficulties in meeting his repayments for his existing credit commitments. In those circumstances I can't conclude that it was reasonable for MoneyBoat to advance further lending because it wasn't likely to be sustainably affordable.

Having thought about everything I am also upholding Mr E's complaint about MoneyBoat's decision to provide this loan as well and so I'm satisfied MoneyBoat ought to not have lent to Mr E at all.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr E in the circumstances of his complaint. I'm satisfied, based on what I've seen that no additional award would be appropriate in this case.

Putting things right

In deciding what redress MoneyBoat should fairly pay in this case I've thought about what might have happened had it not lent to Mr E, as I'm satisfied it ought to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr E may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr E in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr E would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce MoneyBoat's liability in this case for what I'm satisfied it has done wrong and should put right.

MoneyBoat shouldn't have lent to Mr E.

A. MoneyBoat should add together the total of the repayments made by Mr E towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything MoneyBoat have already refunded.
B. MoneyBoat should calculate 8% simple interest* on the individual payments made by Mr E which were considered as part of "A", calculated from the date Mr E originally made the payments, to the date the complaint is settled.
C. MoneyBoat should pay Mr E the total of "A" plus "B".
D. MoneyBoat should remove any adverse information it has recorded on Mr E's credit file in relation to these loans.

*HM Revenue & Customs requires MoneyBoat to deduct tax from this interest. MoneyBoat should give Mr E a certificate showing how much tax it has deducted, if he asks for one.

My final decision

For the reasons I've explained above, I'm upholding Mr E's complaint.

Evergreen Finance London Limited trading as MoneyBoat.co.uk should put things right for Mr E as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 25 October 2024.

Robert Walker
Ombudsman