

The complaint

Mr B complained that PDL Finance Limited trading as Mr Lender ("Mr Lender") gave him loans without carrying out sufficient affordability checks.

What happened

Mr B was advanced five loans and a summary of his borrowing can be found below.

loan number	loan amount	agreement date	repayment date	number of instalments	largest repayment per loan
1	£120.00	26/01/2013	14/02/2013	1	£156.00
Gap in lending					
2	£250.00	20/02/2017	10/03/2017	3	£120.66
3	£300.00	24/04/2017	11/09/2017	6	£124.40
Gap in lending					
4	£400.00	31/10/2020	27/05/2021	6	£149.86
5	£1,500.00	27/05/2021	24/02/2022	12	£322.76

Following Mr B's complaint about the sale of the loans, Mr Lender wrote to him to explain that it wasn't going to uphold the complaint. Unhappy with this response, Mr B referred the complaint to the Financial Ombudsman.

An adjudicator then considered the complaint and in his latest assessment he concluded Mr Lender had carried out proportionate checks which showed it each loan was potentially affordable. And so, he didn't uphold the complaint.

Mr B didn't agree, saying that had Mr Lender checked his bank statements it would've seen that he was gambling which led to Mr B having to work overtime to get on top of this debts. Mr B also said that he had to enter debt management plans to repay debts and finally, he said he has suffered as a result of the high interest rates applicable to the loans.

As no agreement has been reached, the case has been passed to me to resolve.

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 Mr B 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. 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.

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 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 of time (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. The adjudicator didn't think this applied to Mr B's complaint and I agree, considering the number of loans and the number of separate lending chains.

I should add that Mr Lender was required to establish whether Mr B 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 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 thought about these checks I'm satisfied they were proportionate, and the checks showed the loans to be potentially affordable. I've explained why below.

Loan 1

Loan one was a payday loan with one payment due of £156 and so I do think a proportionate check would've included asking Mr B about his income and expenditure.

Mr Lender says some of the information gathered from Mr B at the time about his outgoings is no longer available due to the amount of time that has passed since the application – which I don't consider to be unreasonable. But Mr Lender did know he received a net monthly income of £1,700 and the credit check it carried out didn't show any adverse information such as insolvency.

For a first loan, with a modest repayment amount I consider the checks that Mr Lender carried out to be proportionate and which showed Mr B could potentially afford his repayments. I therefore do not uphold his complaint about this loan.

Loans 2 and 3

There was then a break in lending of around four years before loan 2 was granted, so it was entirely reasonable for Mr Lender to have treated Mr B's application afresh for these loans and so treated him as a new customer. This means while these were Mr B's second and

third loans, they were in effect loans 1 and 2 in a new chain of borrowing. I've kept this in mind when thinking about whether Mr Lender's checks went far enough.

For these loans Mr B declared that his net monthly income was £876 for loan two and £1,300 for loan three. Given these were the first two loans of a new lending chain I think it was reasonable and proportionate for Mr Lender to have relied on what Mr B had declared.

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. For loan two Mr B declared these costs came to £282 per month and then £898 when loan three was approved. Based solely on the income and expenditure information Mr Lender gathered Mr B had enough disposable income to afford the largest repayment for each loan.

Mr B didn't declare any housing costs for either loan. But Mr B declared he lived at home with parents so that may explain why his costs were so low compared to someone with rent or a mortgage. I see no reason as to why Mr Lender couldn't rely on what it was told, so I don't think it needed to have verified what Mr B's living arrangements were or ask further questions about his low housing costs.

Before the loans were approved Mr Lender also carried out credit searches 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 Mr B wasn't insolvent either through an Individual Voluntary Arrangement, bankruptcy or a County Court Judgement within the three years preceding the loans.

In addition, it was given information to suggest he had no outstanding payday loans at the time either of the loans were taken. There were also no triggers in the way loan 2 was repaid or in the loan values to have prompted Mr Lender to do better checks, such as reviewing Mr B's bank statements. So, while Mr B has provided copy bank statements to us it would've been, in my view disproportionate for Mr Lender to have asked for them at the time.

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 Mr B should be able to afford the repayments. There also wasn't anything else to suggest the loans would either be unaffordable or unsustainable for him.

I am not upholding Mr B's complaint about loans 2 and 3.

Loans 4 and 5

Once again there was a significant break in borrowing of around 3 years, so as before I think it would've been reasonable for Mr Lender to have treated Mr B's application afresh and I've kept that mind when thinking about this chain of borrowing.

For these loans Mr B declared that his income was £2,800 per month. For loan 5, Mr Lender says Mr B's income was also verified through a report provided by a credit reference agency.

For loan 5, Mr Lender also made enquires with Mr B to establish the purpose of the loan and it was told it was needed for home improvements, I think making enquires with Mr B as to why he needed such a large loan was reasonable and proportionate.

Mr B was once again asked the same questions as before about his outgoings, this time he declared these to be £660 per month for loan 4 and £1,660 for loan 5. There is quite a large difference between the loans.

However, this variation appears to be explained by for loan 5 Mr B now declaring he had £550 per month of housing costs and his credit commitments being higher as well. For loan 5 only Mr Lender in addition to using the information Mr B declared it used credit file information as well as data provided by the Office of National Statistics.

So, it does seem for loan 5, further checks were carried out. But as before, based solely on the income and expenditure information Mr Lender gathered Mr B had enough disposable income to potentially afford the largest repayment for each loan.

Mr Lender also carried out credit searches and the same caveats apply to the searches carried out for loans 2 and 3. I've looked at the credit results and as before there wasn't anything in my view, that would've led Mr Lender to have carried out further checks and it was aware there hadn't been any insolvencies within the previous three years.

Mr Lender did know that when loan 5 was granted there was one outstanding payday loan. But the presences of one other payday loan wouldn't, in my view have prompted Mr Lender to have either carried out further checks or to have declined the application, this is because payments towards other loans were factored into the expenditure assessment which suggested each loan was affordable.

The way loan 4 was repaid also wouldn't have prompted Mr Lender to think that Mr B was having or likely having financial difficulties. And while loan 5 was taken on the same day as loan 4 was repaid, this was the first time it had happened and so I don't think this, on its own, when there were no other indicators of difficulties ought to have led Mr Lender to have carried out further checks. This also means, that I don't think Mr Lender needed to have verified the information Mr B provided and so it didn't need to review his bank statements.

Taking everything into account, Mr Lender carried out proportionate checks before these two loans were granted which demonstrated that Mr B would likely to be able to afford his repayments. There also wasn't anything else in what Mr Lender was told and gathered to have given it cause for concern that Mr B may have been having or was having financial difficulties.

I am not upholding Mr B's complaint about loans 4 and 5.

Other considerations

I know Mr B considers the interest to be high – and it is fair to say that these loans attract a higher rate of interest than loans that can be typically provided from a high street bank. However, since 2015, there has been a cost cap that was put in place by the industry regulator. Simply put, it means a lender can't collect more than 100% of the amount borrowed so for example, loan 4 would mean Mr Lender couldn't collect more than £800 in capital, interest and charges for this loan.

Having looked at the amounts Mr B repaid to Mr Lender; the loans covered by the cost cap – didn't exceed the cost cap neither did it go beyond what was stipulated in the credit

agreements. Therefore, while the costs of these loans maybe high, that isn't a reason on its own to uphold Mr B's complaint.

I appreciate Mr B will be disappointed by my decision and I'm sorry to hear about the impact these loans had on him. But having looked at all the evidence provided by both parties I am not able to uphold his 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 5 December 2023.

Robert Walker
Ombudsman