The complaint

Mr T complains PDL Finance Limited trading as Mr Lender ("Mr Lender") gave him loans when he had a poor credit score.

What happened

Mr T was advanced four loans and a summary of his borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number instalments	largest repayment per loan
1	£200.00	07/12/2018	10/05/2019	4	£115.60
2	£500.00	10/05/2019	25/07/2019	6	£195.33
break in lending					
3	£400.00	17/02/2022	05/07/2022	4	£199.20
4	£1,500.00	05/07/2022	outstanding	12	£316.58

Following Mr T's complaint about the sale of the loans, Mr Lender wrote to him to explain that it wasn't going to uphold the complaint because it had carried out proportionate checks. Unhappy with this response, Mr T referred the complaint to the Financial Ombudsman.

An adjudicator then considered the complaint and she said Mr Lender had carried out proportionate checks which showed it each loan was affordable. And so, she didn't uphold the complaint.

Mr T didn't agree saying that had Mr Lender reviewed his expenditure more closely it would've discovered he was gambling, and he had "*bad credit*".

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 T 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 T'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 T. These factors include:

- Mr T 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 T 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 T 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 T. The adjudicator didn't think this applied to Mr T's complaint and I agree, considering the break in lending between loans two and three.

Mr Lender was required to establish whether Mr T 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 T 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 T's complaint.

For all of these loans Mr Lender carried out the same sort of checks. It asked Mr T to declare his income and expenditure details and it also carried out a credit search. Mr Lender also says that when loan four was granted, in addition to the above, it also carried out an income verification check through a third-party tool. Finally, for loan four, it used Office of National Statistics (ONS) data, credit check results and what Mr T had declared about his outgoings and then used the "highest figure" for each field for its affordability assessment.

Having thought about these checks I'm satisfied they were proportionate, and the checks showed the loans to be affordable. I've explained why below.

Loans 1 and 2

Mr T declared his income was £1,650 for both loans in this lending chain and I think it was fair and reasonable for Mr Lender to have relied on what Mr T had declared at this point in time.

Mr T declared monthly outgoings of £1,205 for loan one and £1,226 for loan two – this was across a number of different categories including rent /mortgage, utilities, food, transport and other credit commitments to name a few.

I don't think the information Mr T declared would've prompted Mr Lender to have checked the information it was being provided, which means I don't think it would've needed to have viewed Mr T's bank statements.

Based solely on the income and expenditure information Mr Lender gathered Mr T had enough disposable income to afford the largest repayment for each loan.

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 T wasn't insolvent either through an Individual Voluntary Arrangement, bankruptcy or a County Court Judgement within the three years preceding the loan.

In addition, it was given information to suggest that for loan one Mr T didn't have any outstanding payday loans. And he had one outstanding payday loan when loan two was granted. But the presences of one other payday loan wouldn't have prompted Mr Lender to have either carried out further checks or to have declined the application for credit, this is because payments towards other loans were factored into the expenditure assessment which suggested each loan was affordable.

Mr T did make one deferral during the time of loan one – when the first month he paid only the interest rather than the interest and capital. He also returned on the same day that loan one was repaid for loan two – which was for more than twice the amount. But in saying that, given the information he provided showed the loan was affordable and taking account of how each loan was structured – in terms of repayments decreasing each month I think it was still fair for Mr Lender to have accepted what it was being told. The fact he returned quickly for a new loan, is, in this case, not enough for me to say that further checks need to be done.

I am not upholding Mr T's complaint about loans one and two.

Loans 3 and 4

After Mr T repaid loan two, he didn't return for a new loan for nearly three years. This break in borrowing is significant enough for Mr Lender to have reasonably believed that whatever the reasons for Mr T approaching it previously had been, was now resolved.

So, while it was Mr T's third loan it was in effect the first loan in a new chain of borrowing and this does impact what a proportionate check may be. Equally, loan four was in effect the second loan in the second lending chain. I've kept this in mind when thinking about these two loans.

Mr T declared a monthly income of £1,850 for loan three and £1,750 for loan four. For loan four only, Mr Lender says it verified his income through a tool provided by a credit reference agency. It says the results of that check indicated Mr T did have a monthly income of £1,750 – but a copy of the check results hasn't been provided.

But whether the results of this additional check are available (or not) doesn't make a difference to the outcome that I've reached because it was early on in the new lending chain and it was therefore reasonable for Mr Lender to have relied on what it was told, especially, because there wasn't anything to suggest what Mr T had provided was inaccurate.

In terms of expenditure, Mr Lender used monthly outgoings of £1,053 for loan three, and following the additional checks I explained earlier for loan four which included obtaining data from the ONS, Mr Lender used monthly outgoings of £1,148.

The income and expenditure information Mr Lender gathered showed that Mr T had enough disposable income to afford the loan repayments.

In my view, the actions of Mr Lender were proportionate in using a combination of the ONS data, what Mr T declared and his credit file in order to establish his likely monthly outgoings. This has also led me to conclude that I don't think it would've been prompted to have checked the information it was provided any further, which means I don't think it would've needed to have reviewed Mr T's bank statements.

And like loans one and two Mr Lender also carried out a credit search, and it's provided a summary of the results that it received. I've once again considered what it was told. The results were similar to what Mr Lender received for loans one and two and there wasn't anything that would've led Mr Lender to have carried out further checks. It knew Mr T wasn't insolvent within the three years preceding the loans. It also knew, for both loans, based on what it was told that Mr T didn't have any outstanding payday loans.

There were no signs, from the credit check results which indicated Mr T was in financial difficulties, was having problems managing his existing credit commitments or had unsustainable levels of debt.

Finally, I've also considered, that Mr T returned on the same day as loan three was settled for a much larger loan – for over three times the amount. Mr T's fourth loan was also due to be repaid over the longest term to date – one year. In some cases, that may be enough to have prompted Mr Lender to have conducted further checks, but I don't think in this case it it had yet reached that point.

I say this because Mr Lender had in my view conducted proportionate checks, before loan four was granted, and these checks showed that Mr T could meet his largest repayment. Had for example, Mr T had one chain of lending, then I do think it may have been prudent of Mr Lender to have conducted further checks, but there wasn't one chain – there was two, and so that has played a part in my decision to determine the outcome of the complaint.

Overall, the checks Mr Lender carried out, where proportionate and showed Mr T could afford the repayments. There also wasn't anything else to suggest these loans would either be unaffordable or unsustainable for him.

I appreciate Mr T will be disappointed by the decision, but I was to reassure him I've considered all the evidence provided. An outstanding balance does remain due and I would remind Mr Lender of its obligation to treat Mr T fairly and with forbearance.

I'm therefore not upholding Mr T's complaint about the approval of loans three and four.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 3 November 2023.

Robert Walker
Ombudsman