DRN-4166890

The complaint

Miss B complains PDL Finance Limited trading as Mr Lender ("Mr Lender") didn't carry out proper affordability checks before it granted her loans which she couldn't afford to repay.

What happened

Miss B was advanced two loans from Mr Lender and a summary of her borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number instalments	highest repayment per loan
1	£200.00	06/02/2019	20/02/2019	3	£101.86
2	£500.00	20/02/2019	being repaid through a debt management plan	6	£231.33

Each loan was structured so that each payment decreased in value through the life of the loan.

Following Miss B's complaint Mr Lender wrote to her to explain it wasn't going to uphold it because it had carried out proportionate checks. Unhappy with this response, Miss B referred the complaint to the Financial Ombudsman.

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

Miss B didn't agree and asked for an ombudsman to review the complaint because at the time she had taken out other loans from other providers. Miss B also says she lost her job in 2018 and someone else repaid her Mr Lender loan.

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 Miss B 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 Miss 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 Miss B. These factors include:

- Miss 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);
- Miss 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);
- Miss 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 Miss B. The adjudicator didn't think this applied to Miss B's complaint because there were only two loans and I agree.

Mr Lender was required to establish whether Miss B 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 Miss B 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 Miss B's complaint.

For both of these loans Mr Lender carried out the same sort of checks. It asked Miss B to declare her income and expenditure details and it also carried out a credit search. 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.

Miss B declared her monthly income to be £1,600 for both loans and Miss B declared monthly outgoings of £489 for loan one and £229 for loan two. Miss B therefore declared a sufficient amount of disposable income for each loan to enable Mr Lender to reasonably believe she could afford the repayments she was committed to making.

Miss B has said that she had lost her job in 2018 and I'm sorry to hear that. However, that information wasn't reflected in what she told Mr Lender at the time, and it also doesn't appear to have been reflected in the results of the checks that Mr Lender conducted. So, it didn't know that she wasn't working. And importantly, at this point in the lending relationship, I think it was reasonable for Mr Lender to have relied on what Miss B declared without the need to verify her income.

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 or to raise any other red flags. It knew Miss B 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 Miss B did have an outstanding payday loan. For loan two, Mr Lender was informed by the credit reference agency that there were zero outstanding payday loans.

I am satisfied that he presence 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 applications for credit. I say this because payments towards other loans were factored into the expenditure assessment and even factoring that loan into Miss B's monthly repayments the first loan still looked affordable.

There were no signs, from the credit check results to indicate Miss B was in financial difficulties, was having problems managing her existing credit commitments or had unsustainable levels of debt.

I appreciate Miss B has provided copy bank statements, but for a loan chain containing two loans where the checks carried out were proportionate and showed she could afford the repayments I don't think Mr Lender needed to view or check her bank statements. To do so, would've been disproportionate to the circumstances.

Overall, the proportionate checks Mr Lender carried before each loan showed it Miss B could afford the repayments and I'm satisfied it was entitled to rely on the information Miss B declared about her income and expenditure. There also wasn't anything else to suggest these loans would either be unaffordable for her or unsustainable. So, I don't think Mr Lender did anything wrong when it approved the loans for Miss B and it follows I'm therefore not upholding Miss B's complaint.

My final decision

For the reasons I've outlined above, I am not upholding Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 10 October 2023.

Robert Walker
Ombudsman