

The complaint

Mr E complains PDL Finance Limited trading as Mr Lender ("Mr Lender") gave him loans when he couldn't afford to repay.

What happened

A summary of Mr E's borrowing can be found below.

loan number	loan amount	agreement date	repayment date	number monthly instalments	largest repayment per loan
1	£200.00	11/08/2021	12/08/2021	6	£73.23
2	Mr E withdrew from loan agreement taken on 14 August 2021				
3	£200.00	16/09/2021	29/09/2021	6	£102.13
4	£500.00	05/10/2021	outstanding	12	£107.58

All of the loans were structured so that payments decreased each month.

Following Mr E's complaint about the sale of the loans, Mr Lender wrote to him to explain that it wasn't going to uphold the complaint about loan 1 because it had carried out proportionate checks. Loan 2 was withdrawn and so Mr E didn't pay any interest and Mr Lender says the loan has already been removed from his credit file.

However, for loans 3 and 4, Mr Lender accepted that it ought to have done more before it approved these loans, and it made an offer to settle the complaint. It agreed to refund the interest fees and charges applied to loan 3 along with 8% simple interest. For loan 4, it would reduce the outstanding balance to capital only, and then using the refund due for loan 3 to reduce that balance further. Finally, it said it would *"Remove each of your loans with Mr Lender entirely from your credit file."*

Unhappy with this offer, Mr E referred the complaint to the Financial Ombudsman.

An adjudicator then considered the complaint and she said Mr Lender's offer for loans 3 and 4 was in line with what she would've recommended had she upheld these loans. She also didn't look at loan 2 because no interest had been paid and so there was no loss. Instead, she looked at loan 1 and she concluded that Mr Lender hadn't made an error when it approved the loan.

Mr E didn't agree saying that Mr Lender didn't verify his income and he also provided some information about his gambling. Overall, Mr E said had further checks been carried out than Mr Lender wouldn't have approved the loans.

As no agreement has been reached, the case 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.

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 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. 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 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 Mr Lender 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 adjudicator didn't think this applied to Mr E's complaint and I agree, considering the number and value of the loans.

Mr Lender 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.

I've looked at whether Mr Lender did all it needed to do before it granted loan 1. Loan 2 was taken and repaid on the same day and Mr Lender has confirmed this was treated as withdrawn and so no interest was charged and it says the loan was removed from his credit file. And I am also not going to decide whether or not Mr Lender should have approved loans 3 and 4 because Mr Lender has already made an offer to settle them.

Loan 1

Mr E declared his monthly income was £1,317. Mr E has said that had further checks been carried out at this time, Mr Lender would've seen that his income wasn't as high as what he declared. But, Mr Lender didn't know that at the time, and for a first loan I think it was entirely proportionate of Mr Lender to have relied on what Mr E had declared.

Mr E declared monthly outgoings of £783 – this was across a number of different categories including rent /mortgage, utilities, food, transport and other credit commitments to name a

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

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

In addition, it was also told that Mr E didn't have any other outstanding "AAI" loans which is another name for payday loans and so there was no indication that Mr E was reliant on this sort of credit.

I don't think the information Mr E declared (or what Mr Lender received from the credit reference agency) would've prompted Mr Lender to have checked the information it was being provided. This means I don't think it would've needed to have reviewed Mr E's bank statements.

The checks, for a small loan with a modest monthly repayment were proportionate and showed Mr Lender that Mr E would likely be able to afford his repayments. I am therefore not upholding Mr E's complaint about loan 1.

Loan 2

As I've said above, no interest was charged when Mr E withdrew from the loan. So, even if I was to uphold this loan there wouldn't be any refund due to him. Mr Lender has also confirmed this loan has been removed from his credit file so there wouldn't be an adjustment to that either. So, I say no more about it.

Loans 3 and 4

Mr Lender has already agreed, as outlined in the final response letter to pay compensation for these loans. The redress it has offered is in line with what the Financial Ombudsman would've asked Mr Lender to do, had it been decided these two loans ought to not have been granted. I therefore don't need to make a finding on whether Mr Lender did all it ought to have done before providing these loans.

As Mr Lender has already accepted something went wrong and has proposed to pay compensation then the offer made by Mr Lender is fair and reasonable in the circumstances of the whole complaint and so this is what Mr Lender should pay Mr E in order to resolve the complaint.

My final decision

PDL Finance Limited has already made an offer for loans 3 and 4, as outlined in the final response letter to settle the complaint and I think this offer is fair in all the circumstances.

So, my decision is that PDL Finance Limited should pay Mr E this offer.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 11 January 2024.

Robert Walker
Ombudsman