DRN-4190737

Financial Ombudsman Service

The complaint

Mrs C complains PDL Finance Limited trading as Mr Lender ("Mr Lender") gave her loans she couldn't afford to repay.

What happened

Mrs C was advanced four 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	£300.00	31/01/2022	05/02/2022	4	£139.80
2	£500.00	12/02/2022	13/04/2022	6	£186.56
3	£400.00	20/04/2022	01/06/2022	6	£197.96
4	£300.00	06/06/2022	outstanding	4	£132.60

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

Following Mrs C's complaint Mr Lender wrote to her to explain why it wasn't going to uphold it because it had carried out proportionate checks. Unhappy with this response, Mrs C 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. She also explained that Mr Lender had taken the decision to only collect the capital due for loan 4 – which left a balance of £35.40 to pay.

Mrs C didn't agree with the outcome and in summary she said:

- Mr Lender didn't do the checks that it claimed.
- Mrs C's income wasn't as high as Mr Lender was told. She said her income was around £1,200 per month but this had been reduced due to being on sick leave.
- No evidence of Mrs C's income was requested and bank statements weren't asked for.

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 Mrs C 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 Mrs C'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 Mrs C. These factors include:

- Mrs C 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);
- Mrs C 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);
- Mrs C 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 Mrs C. The adjudicator didn't think this applied to Mrs C's complaint.

Mr Lender was required to establish whether Mrs C 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 Mrs C was able to repay her loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mrs C's complaint.

For all of these loans Mr Lender carried out the same sort of checks. It asked Mrs C to declare her income and expenditure details and it also carried out a credit search. Mr Lender also says that for loan three it used a tool provided by a credit reference agency to check her income. For loan four it used Office of National Statistics (ONS) data, her credit file as well as what Mrs C has declared to check her outgoings.

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.

Mrs C declared her income was £2,100 for loan one, and then between £4,119 and £4,599 for loans two to four. Mr Lender says for at least loan three the figure was checked using a third-party tool provided by a particular credit reference agency.

Mrs C has said that her income wasn't accurate, and she been on sick leave for several months. 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 and couldn't have known that her income wasn't as high. And importantly, at this point in the lending relationship, I think it was reasonable for it to have relied on what Mrs C declared without the need for checking her income through either bank statements or wage slips.

Mrs C declared monthly outgoings of between £1,377 at loan one up to £2,131 for loan three. For loan 4, Mr Lender also used averages obtained from the ONS as well as the information Mrs C declared and from her credit file. Having done so, it increased Mrs C's monthly expenditure from £1,429 to £1,781.

In my view, the actions of Mr Lender were reasonable using a combination of the ONS data, what Mrs C declared and her credit file, so I don't think it would've been prompted to have checked the information any further. This means I don't think it would've needed to have viewed Mrs C's bank statements.

Based solely on the income and expenditure information Mr Lender gathered Mrs C had enough disposable income to afford the loan repayments.

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 have declined these loans. It knew Mrs C 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 that for loan one Mrs C didn't have any outstanding payday loans. And she had one outstanding loan when loans two to four were given. 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 applications for credit, this is because payments towards other loans were factored into the expenditure assessment.

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

Overall, given the checks Mr Lender carried out I'm satisfied it was entitled to rely on the information Mrs C declared about her income and expenditure. The checks Mr Lender carried out where proportionate and showed Mrs C could afford her repayments. There also wasn't anything else to suggest these loans would either be unaffordable for her or unsustainable.

An outstanding balance remains due on the final loan, and Mr Lender has let us know that it has taken the decision to collect only the remaining capital, which leaves an outstanding balance of £35.40 to pay. I would remind Mr Lender of its regulatory obligation to treat Mrs C fairly and with forbearance, if needed.

I'm therefore not upholding Mr M's complaint about the approval of the loans.

My final decision

For the reasons I've outlined above, I am not upholding Mrs C's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs C to accept or reject my decision before 28 September 2023.

Robert Walker
Ombudsman