

complaint

Mr G complains that MYJAR Limited didn't carry out proper affordability checks and irresponsibly granted him three unaffordable short term instalment loans. He says he was borrowing from other lenders at the time. The loans shouldn't have been given. He wants the charges and interest refunded and his credit file amended.

background

MYJAR said in its final response Mr G had three loans repayable over three to six months between October 2015 and March 2016. He confirmed his personal details and it carried out appropriate checks on each loan including of external credit bureau data. It used its advanced algorithm to underwrite each loan. All three loans were granted and repaid early. There were reasonable gaps between them averaging 43 days. Its checks were in line with guidance at the time. It relied on the information Mr G gave and he didn't say he'd financial problems. The loans were affordable.

Our adjudicator felt this complaint should be partly upheld. He said MYJAR's checks on the first loan in October 2015 went far enough. The repayments appeared affordable given the information it had on Mr G's income and expenses. But the checks on the next two loans didn't go far enough. The amounts Mr G had to repay on both loans increased substantially and took out a large part of his declared monthly income. Mr G appears to have given accurate information in response to MYJAR's questions. But the credit search results suggested he was borrowing from several other payday lenders. MYJAR should've asked more questions. If it'd done so Mr G would've likely disclosed these loans and commitments and MYJAR would've seen after taking account of payments to these lenders he'd in fact no disposable income. And it would've seen he couldn't afford to repay the last two loans. They shouldn't have been granted. So, MYJAR should refund all interest and charges Mr G paid on the last two loans plus interest. It should amend his credit file.

MYJAR doesn't agree and has asked for an ombudsman review. In summary it says it carried out proportionate checks on the last two loans. It did ask more questions about his other expenditure. The maximum monthly repayment was £495 from a disposable income of between £750 and £845. The repayments weren't excessive. Its credit search data isn't human readable and is entered into its score card system. Mr G had other short term loan accounts but they hadn't defaulted and the number of new accounts had decreased before loans two and three. His borrowing history doesn't show any financial difficulty. Mr G used its services for his short term borrowing needs and he repaid his loans early and there were gaps between them. He never said he'd financial difficulties.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Before lending to Mr G MYJAR had to make sure each loan was affordable. There aren't set checks it had to carry out. But its checks should've been proportionate to things like – but not limited to – the size of the loan, the repayments and what it knew about Mr G.

Mr G took out three instalment loans with MYJAR. They were for £725, £1,000 and £1,500 over 6, 3 and 6 months respectively. All three were paid off early.

When he asked for the first loan Mr G was a new customer and the loan's repayments were for a relatively small proportion of his declared disposable income. I think Payday UK's checks on the first loan were proportionate and on the information available the first loan appeared affordable.

But the second loan was for more money and for a shorter period of 3 months. His meant the repayments would've increased significantly. The third loan was also taken out for more money and although over 6 months the repayments remained similar to those on the second loan. The repayments on both loans represented a significant proportion of Mr G's declared disposable income - up to two thirds of it.

Mr G was steadily increasing his borrowing on each loan and was taking out loans in relatively quick succession with only small gaps between them. There was also evidence that the credit search information MYJAR received, whatever its format, showed Mr G was taking out payday loans with other lenders.

I think this and Mr G's borrowing history suggested he was likely becoming reliant on short term loans for his longer term credit requirements and that he may've had financial difficulties.

Payday UK was entitled to rely on the information Mr G gave when applying for the loans. As the adjudicator has said there's nothing to suggest he gave incomplete or inaccurate information in response to the questions he was asked. And I think its more likely he would've given more information on these other payday loans if he'd been asked about them, than not.

By the time of the third loan the amount borrowed had doubled overall to £1,500. And this was the third instalment loan given in five months. By this point I think Mr G's borrowing history suggested he was now reliant on these loans for his longer term credit needs.

Overall I think MYJAR should've reasonably asked more questions on the applications for the second and third loans and carried out further checks and validations. In particular it should've asked Mr G more about his regular and short term financial commitments including the other payday loans he had. And by the time of the third loan application it should've asked to see Mr G's bank statements. Although it may not have been required to do these things I think it would've been reasonable and proportionate for it to do so.

I don't think the fact that there were some relatively short gaps between a loan being paid off and a new one taken out materially affects the position or shows Mr G wasn't dependent on them as MYJAR has suggested. It's also said that the fact the loans were paid off early shows they were affordable. But I don't think that's necessarily the case. Early repayment could've been made possible, for example, by other borrowing.

If MYJAR had done more checks and asked more questions on loans two and three I think it would've likely seen it didn't have a complete picture about Mr G's financial commitments and outgoings. And it would've seen he'd other payday loans and his disposable income was lower than he'd declared and the second and third loans' repayments weren't actually affordable for him.

Taking everything into account I don't think Payday UK has shown its checks on the second and third loans were proportionate or that these two loans were affordable or sustainable for Mr G. On balance I don't think these two loans should've been granted.

I therefore think the adjudicator's recommendations are a fair and reasonable resolution of this complaint. And I don't see any compelling reason to change the proposed outcome in this case.

my final decision

I uphold this complaint. To put things right I require MYJAR Limited:

1. To refund to Mr G all interest and charges he paid on loans two and three together with simple interest at the rate of 8% a year* from the date each such sum was paid until the date of settlement; and
2. To remove any negative information about the second and third loans from Mr G's credit file.

* HM Revenue & Customs requires MYJAR Limited to take off tax from this interest. It must give Mr G a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 11 August 2017.

Stephen Cooper
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