

The complaint

Mr P complains that Clydesdale Bank Plc (Clydesdale) lent to him irresponsibly.

What happened

Mr P applied to Clydesdale for a loan which was accepted and drawn down in April 2020. The loan was for £25,000 over seven years. A few months later, Mr P complained to Clydesdale and said the loan shouldn't have gone through due to his personal circumstances which had left him in debt. He said he had applied for two loans earlier in the month and this should've been flagged. Mr P also said he had a gambling problem.

Clydesdale responded and said they use an internal scoring system as well as information from credit reference agencies (CRA's) to determine affordability and eligibility. Clydesdale said, on Mr P's application, he noted his income as £3,800 per month after tax but in his complaint he noted it as £3,356.97. Clydesdale said this may have contributed to the loan decision. Clydesdale also said the two previous loans taken out by Mr P may not have shown up on his credit file as this depends on when those particular lenders decided to report it to the CRA's. Clydesdale set out options that are available for customers who find themselves in financial difficulty. Clydesdale didn't uphold the complaint.

Our investigator looked into things for Mr P. He thought Clydesdale had acted reasonably in lending to Mr P. Mr P disagreed so the matter has come 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.

Having done so, I've decided not to uphold the complaint. I understand Mr P will be disappointed by this but I'll explain why I have made this decision.

We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Clydesdale needed to take reasonable steps to ensure that they didn't lend irresponsibly. In practice this means that they should've carried out proportionate checks to make sure that Mr P could repay the credit in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

The first point I've addressed is whether I think Clydesdale carried out reasonable and proportionate checks. Section 5 of the Consumer Credit (CONC) sourcebook outlines that the assessment that Clydesdale needed to complete should've been dependent on, and proportionate to, a number of factors – including the amount and cost of the credit and the

consumer's borrowing history. CONC also provides guidance on the sources of information Clydesdale may have wanted to consider as part of making a proportionate assessment. It then gives examples of factors a firm must consider and refers to whether the information the firm has is sufficient and whether to obtain additional information from the customer and any other sources of information to use.

Clydesdale is free to decide how to set their lending criteria but they should complete proportionate checks to ensure borrowing is sustainable. In this case, I can see that Clydesdale took into account income and expenditure information provided by Mr P. I can see that Mr P applies for the loan online and on the form he notes his pre-tax annual income as £65,000 and £3,800 as his monthly income after tax. Under a section asking for expenditure details, he notes his mortgage/rent as £750 and other credit payments as £500. Mr P answers 'No' to a question asking him whether his income is likely to go down in the future. Mr P also answers 'No' to a question asking whether his expenditure is likely to increase in the future. He says he has external debt of £23,000 and wants to use the loan to consolidate his debt. The loan is then approved with monthly payments of £480.86.

I can see Clydesdale have taken this information into consideration when deciding whether to lend to Mr P. They also carry out some credit checks but I don't think these checks went far enough to get a full understanding of Mr P's financial circumstances. The information shows they took into account Mr P's secured and unsecured borrowing and any searches within the last six months. I believe it would've been reasonable and proportionate for Clydesdale to carry out further checks. Clydesdale identify Mr P's total secured borrowing as £129,000 and total unsecured borrowing as £16,400. There's no evidence Clydesdale looked into how Mr P was performing against those other accounts and, in particular, whether there were any late payment markers or missed payments and whether any accounts were in default.

Clydesdale were lending to Mr P for the first time so they didn't have any account history of their own by which they could've evaluated Mr P's performance. And, given this was a loan for £25,000 over seven years, I think it would've been reasonable for Clydesdale to have carried out checks into how Mr P was performing against other accounts. I don't feel the checks carried out in this case are the type I would reasonably expect because, not only would they not help Clydesdale to build a reasonable picture of Mr P's financial situation, but they wouldn't assist in determining whether he could repay the credit in a sustainable way.

I've taken the view that reasonable and proportionate checks weren't carried out. So, the next point I've considered is, had reasonable and proportionate checks been carried out, whether they would've shown that Mr P was more likely than not unable to sustainably repay the credit. And, being able to sustainably repay credit is described as doing so without undue difficulty, while being able to meet other commitments and without having to borrow further.

I've looked at Mr P's credit file to see how he was performing against his accounts with other lenders at the time he took out the loan with Clydesdale. At the point Mr P applies for the loan with Clydesdale, his credit file shows he has five other active accounts. Two of these are loan accounts, one credit card, a mortgage and a current account. The credit file shows these accounts are all well managed with no late/missed payment markers and no defaults.

I've also gone further and looked at any accounts which were closed prior to Mr P applying for the loan but were active within the previous three months. There are two accounts which are again well managed with no late/missed payment markers and no defaults. The information doesn't suggest Mr P was taking out loans regularly to service other debts, or that he was finding it difficult to make repayments. I feel it's also important to add that, in

relation to two of the accounts I've mentioned (one active account and one closed account), I don't think these appeared on the result of Clydesdale's search of unsecured borrowing given that they were also opened in April. And, given that Clydesdale's search identified unsecured borrowing of £16,400, it doesn't appear that the lender for those two accounts had reported this to the CRA's at the point Mr P applied for the loan with Clydesdale. I say this because, had the lenders reported it, the total unsecured borrowing figure would've been higher. So, in view of the income Mr P declared to Clydesdale, I think, on the balance of probabilities, it's more likely than not, had Clydesdale carried out these searches they would still have offered Mr P the loan. And, I think it's reasonable to conclude that those searches – together with the information Mr P declared on his application form – would've shown that Mr P could make the monthly payments of £480.86 in a sustainable way.

I can see Mr P queries why Clydesdale, knowing his occupation, didn't anticipate the uncertainty and instability a national lockdown has brought to the sector he works in. I do understand why Mr P is concerned by this but the form he completes does ask him to confirm whether he expects his income will go down in the future and he answers with 'No'. I think it's reasonable for Clydesdale to rely on this and, while I don't disagree there has been uncertainty created by the timings and duration of national lockdowns, I don't think it's reasonable to expect Clydesdale to have asked Mr P further questions about this at the time.

Mr P says he received a £25,000 loan within a very short space of applying and also questions whether the lack of checks could lead to a consumer asking for a loan of £100,000. I do take on board Mr P's points here but my role is to consider whether, in the circumstances of this case, Clydesdale have made a fair decision to lend. We look at the facts of each case individually and it might be reasonable in cases where Clydesdale agree to lend £100,000 that they do carry out additional checks. That isn't however the case here and, while I do take into account Mr P's point about the timing between his application and the approval of the loan, that in itself doesn't mean Clydesdale have acted unfairly. Some businesses might well offer a service which provides a quicker response time to applications but we would still look at whether the checks carried out have been reasonable and proportionate. So, while I can't say Clydesdale have acted unreasonably in their response time, I have found their checks weren't reasonable and proportionate.

Mr P says Clydesdale should've asked to see his bank statements. He says this would've given Clydesdale a more complete picture of his expenditure. The checks carried out by Clydesdale need to be reasonable and proportionate and, while I have found that wasn't the case here, I don't think Clydesdale needed to get Mr P's bank statements. Mr P was given an opportunity to set out details of his expenditure. And, while the question on the application is limited to 'mortgage/rent' and 'other credit payments', I don't think it was unreasonable for Clydesdale to not carry out any further checks in relation to Mr P's expenditure. I say this because it's reasonable for a lender to take the view that those items of expenditure specified on the form are likely to be a consumer's main outgoings. In addition to this, Clydesdale did also gather information which set out Mr P's total secured/unsecured borrowing. So, I think these checks were sufficient in this case to get an understanding of Mr P's expenditure.

I can see Mr P says he was gambling around the time he applied for the loan and Clydesdale would've picked up on this had they asked for his bank statements. Mr P's bank statement for April does show large amounts of money going out from early into the month and also through to the point when he applies for the loan. The money goes out to what appears to be a trading/investment platform. I can't see however any information which shows that Mr P made Clydesdale aware of a gambling problem. In Mr P's application, he

says the reason for the loan is to consolidate his debts. In addition to this, given that I don't think it was unreasonable for Clydesdale to not ask for Mr P's bank statements, I can't say they would've been aware the loan would be used for gambling. So, while I'm sorry to hear about the problem Mr P had at the time, I can't say Clydesdale have been unreasonable. It's good to hear Mr P has since received treatment which he has found beneficial.

I've also considered whether I think Clydesdale have acted unfairly or unreasonably in any other way. We do expect lenders to treat consumers, who are experiencing financial difficulty or are vulnerable, sympathetically and positively. I feel that has been the case here. I can see Clydesdale agreed to a three-month payment holiday. When this ends, Clydesdale phone Mr P to ask about his circumstances and explain he can contact them if he does need any further assistance. In addition to this, I can see Clydesdale, in their complaint response, set out options for further support. So, this shows Clydesdale have taken into account Mr P's circumstances and have taken steps to help him.

In summary, I don't uphold Mr P's complaint in this matter as I feel Clydesdale made a fair decision to lend.

My final decision

For the reasons I have given, it is my final decision that the complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 27 April 2021.

Paviter Dhaddy
Ombudsman