

The complaint

Mr R complains about a loan provided to him by George Banco Limited, ("George Banco") which he says was unaffordable.

What happened

Mr R was given a single loan by George Banco. He took the loan out on 6 January 2020 for £2000 and was due to repay it in 36 monthly instalments. The repayments were for around £121 and the total that he would have to repay was around £4356.

One of our adjudicators looked into Mr R's complaint. He thought that George Banco carried out sufficient checks before agreeing to provide this loan and that there wasn't anything in the information it gathered which meant it shouldn't have lent to Mr R.

Mr R didn't agree with our adjudicator's view. As the complaint hasn't been resolved informally, it comes to me, an ombudsman, to decide.

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind when deciding Mr R's complaint.

General principles and questions I need to think about when deciding whether to uphold Mr R's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out.

For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account things like the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend.

For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income)

the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income)

the *longer* the period of time a borrower will be indebted (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

I've kept all of this in mind when thinking about whether George Banco did what it needed to before agreeing to lend to Mr R and thought carefully about the following key questions:

Did George Banco complete reasonable and proportionate checks to satisfy itself that Mr R would be able to repay his loan in a sustainable way? If so, did it make a fair lending decision? If not, what would reasonable and proportionate checks have shown at the time?

Did George Banco act unfairly or unreasonably in some other way?

what checks did George Banco do?

George Banco gathered some information from Mr R before it agreed the loan. It asked him for details of his income. Mr R said this was £1000 and George Banco verified this by looking at an online income verification tool. George Banco asked Mr R for how much he spent on rent or a mortgage each month. Mr R told it he paid £175 rent and he lived at home at that time.

George Banco then used Office of National Statistics (ONS) data to assess Mr R's monthly general living expenses and it worked this out to be £439. It then ran a credit search and could see that Mr R had some revolving credit and was due to pay £16 a month as a credit commitment.

George Banco worked out that this left Mr R with disposable income which meant that the monthly contractual instalments of around £121 that he had signed up to make on this loan should have been affordable for him. It would have still left him with around £249 disposable income after the loan repayment had been taken into consideration.

did George Banco do proportionate checks?

I've carefully considered whether the information that George Banco gathered at the time should reasonably have triggered further checks. On balance, I don't think that the

information George Banco had collected about Mr R's financial situation was enough to prompt a reasonable lender to think it needed to do further or more in-depth checking.

The credit report that George Banco acquired showed very little at that time and it could see, based on the checks it carried out that there wasn't anything that would have alerted it to wanting to find out more. So, I think the checks it carried out were proportionate.

did George Banco make a fair lending decision?

Taking things as a whole, I think it would have been reasonable for George Banco to consider that the monthly repayments on its loan were affordable for Mr R – allowing for the amount it had assessed to be his disposal income.

I've needed to see whether George Banco made a fair lending decision based on what it had in front of it, and from what I have seen, I think it did.

Overall, I think the checks that George Banco carried out before lending to Mr R were reasonable and proportionate. I think it was reasonable in the circumstances for George Banco to have relied on the information that Mr R provided and what it found in its checks - and this was enough to enable George Banco to gain a reasonable understanding of his financial situation and see that Mr R appeared to be managing his money without any significant payment problems. I don't think more in-depth checks – such as requesting bank statements were required.

So, I haven't seen enough to be able to uphold Mr R's irresponsible lending complaint.

has George Banco acted unfairly in any other way?

Mr R has recently said he has in more recent times suffered financially due to losing his job. He says he has completed an income and expenditure form with George Banco and this exercise has shown that he has no disposable income and is struggling financially.

I am sorry to hear this and if he hasn't agreed a payment plan with George Banco yet, I would like to remind it that it should discuss all options constructively with Mr R and treat him fairly and sympathetically if Mr R needs further time to pay what he still owes.

I would though agree with our adjudicator that George Banco would not have had any foresight into Mr R's recent financial issues when it agreed to lend.

In conclusion, I do not uphold Mr R's complaint.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against George Banco Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 2 August 2021.

Mark Richardson
Ombudsman