DRN-3142709

The complaint

Mr J has complained that Lendable Ltd was irresponsible in lending to him.

What happened

In May 2019 Mr J took out a loan with Lendable for £2,950. He said the loan was to consolidate his debts. The loan was taken out over 18 months with an APR of 31.14% and his monthly repayments were £201.73 making the total repayable £3,585.59. The loan was repaid in October 2020.

Mr J complained that Lendable hadn't properly checked he could afford the loan.

Lendable looked into his complaint and didn't uphold it. It said the checks had been properly carried out and it thought the loan was sustainable. Mr J referred his complaint to us.

Our adjudicator didn't uphold Mr J's complaint. As Mr J disagreed, the complaint has been passed to me.

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 unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Taking into account the relevant rules, guidance and good industry practice, I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Lendable complete reasonable and proportionate checks to satisfy itself that Mr J would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Mr J would have been able to do so?
- Did Lendable act unfairly or unreasonably in some other way?

The rules and regulations in place required Lendable to carry out a reasonable and proportionate assessment of Mr J's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focussed" – so Lendable had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mr J undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Lendable to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Mr J. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

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

- the *lower* a consumer's 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 *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);

- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr J's complaint.

Lendable said it had been told by Mr J that he earned £2,265 net a month. It verified that using a standard industry tool, which looks to see whether the disclosed income is consistent with the turnover of the consumer's bank accounts. The check came back showing it was. Lendable also carried out a credit search. That showed Mr J owed £10,498 in total spread across two unsecured loans, one hire purchase account, two credit cards and the overdraft facility on his current account. The search didn't show any recent new credit or defaults.

However in terms of expenditure I haven't seen any evidence which shows Lendable gathered information or considered the usual living expenses (other than credit commitments) Mr J might have needed to pay with his income of £2,265 a month. By that I mean, I can't see any questions were asked, or information gathered, on things like Mr J's rent, utility bills or monthly travel costs. Or that Lendable looked to check Mr J would be left with sufficient funds after all of his commitments, including this potential loan repayment, for any unexpected expenses. So in the absence of this information, I can't see how Lendable could have been satisfied Mr J would be able to repay the loan sustainably.

In the light of this I next need to consider whether reasonable and proportionate checks would have shown the loan could be repaid sustainably. With this in mind, I've looked at what I think proportionate checks would likely have shown. I appreciate that different checks show different things, and proportionate checks might not have extended to Lendable looking at bank statements. But, in the absence of anything else, I've reviewed these to get an idea of what Lendable would probably have discovered if it had asked Mr J some questions about his expenditure.

The bank statements for the two months before Mr J took out the loan show he was spending just over a tenth of his salary on gambling transactions. However there was no indication of him borrowing in order to gamble. Also there were no returned payments and his account was in credit. If Lendable had seen these statements, I don't think they should reasonably have alerted it to the risk that Mr J would struggle to repay the loan sustainably as he seemed to be managing his finances relatively satisfactorily. So I'm not persuaded that Lendable acted unfairly in lending to Mr J.

I've also thought about whether Lendable acted unfairly in some other way and I haven't seen any evidence that it did.

My final decision

For the reasons given above, I'm not upholding Mr J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 10 March 2022.

Elizabeth Grant
Ombudsman