

The complaint

Mr O complained that Lendable Ltd lent to him irresponsibly and provided him with an unaffordable loan.

What happened

Lendable provided a loan to Mr O as follows:

Date taken	Loan amount	Term	Typical monthly repayment	Total amount payable	Loan status
29/07/2019	£4,400	36 months	£177.84.	£6,404.95.	outstanding

When Mr O complained to Lendable it didn't uphold his complaint so he brought his complaint to us. One of our adjudicators looked at the complaint and thought that Lendable shouldn't have provided the loan. Our adjudicator explained why she was recommending that the complaint should be upheld and set out directions indicating what Lendable should do to put things right.

Lendable disagreed. It mainly said that its checks showed the loan was affordable and it didn't feel our adjudicator had properly considered that the loan purpose was debt consolidation – in other words, Mr O said he would use the loan to repay other debt.

So, as the complaint hasn't been resolved, it comes to me 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 while deciding this complaint. Having done so, I am upholding Mr O's complaint for broadly the same reasons as our adjudicator. I'll explain my reasons.

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

Lenders must work out if a borrower can sustainably 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 proportionate check might also require the lender to 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 significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

Lendable told us it verified Mr O's income using third party data and was satisfied these checks showed it could rely on his average earnings being around £2,193 each month.

Lendable also carried out its own credit checks. Lendable saw that Mr O had four credit cards with outstanding balances totalling £3,218 and he was overdrawn on his current account – making his total indebtedness £4,107.

Like our adjudicator, I think Lendable should have been concerned to see that when Mr O applied for this loan the credit checks it obtained showed that all his credit cards were at or over their limit. It could also see that he had been making what looked like minimum monthly repayments only to his cards for some months. I think it's fair to say that this effectively serves mainly to extend the debt and it adds very significantly to the long term cost of that credit – repayments at that level are insufficient to make any meaningful inroads into card balances. So I think this was an indication that Mr O was already under financial stress – borne out by the fact that he was seeking a loan in order to repay other debt.

Debt consolidation can be an expensive option so it isn't something I'd expect someone on top of their finances would be likely to want to do.

Lendable hasn't shown me that it considered Mr O's living costs and other regular expenditure in any detail. I think this was something it needed to understand in order to make a fair lending decision. Keeping in mind also the loan term and amount, I think Lendable needed to do more to ensure it had a proper understanding of Mr O's overall financial situation to be satisfied he could afford the loan sustainably for the next three years.

So, I've looked at what I think proportionate checks would likely have shown.

Bank statements provided by Mr O are a useful guide to understanding his overall financial situation at the time. These show that in the three months running up to him applying for this loan, Mr O was making full use of his £2,000 arranged overdraft limit – typically starting and ending the month around the account limit. It was also evident that he was exceeding the account limit from time to time and paying extra charges for this. And there were also numerous returned direct debits shown – which added to the fees Mr O was already paying for his arranged overdraft.

I think, had Lendable completed what I consider would've been a proportionate check, it would likely have seen the signs that Mr O was already in serious financial difficulty and, despite what its affordability assessment might have shown, realised that Mr O was unlikely to be able to afford its loan.

I've taken into account that Lendable understood that the loan was intended for debt consolidation. But Lendable didn't have control over how Mr O used the loan as it paid the loan balance to him. And half the loan amount would have been needed just to return Mr O's current account to a nil balance – so that didn't leave enough to pay his credit cards. I don't think it's likely that the loan monthly repayments typically meant that Mr O would be making any monthly saving on the amount he already needed to pay towards his credit commitments – so it's hard to understand how even with debt consolidation this loan was going to improve Mr O's day to day financial situation.

Having seen the extent of Mr O's money problems, I think it should've been apparent that there was a real risk he would use the loan instead to meet his immediate financial demands. And even if Mr O had used this loan to repay some existing debt, I don't think Lendable had sufficient reason to think this would've improved his overall position sufficiently to achieve a significant and sustainable improvement in his financial situation – given his outstanding indebtedness overall and reliance on using credit cards – which of course would make available more credit if he paid the balances down.

So all the indications were that he would most likely remain in serious financial trouble regardless. And I believe that if Lendable had done a proportionate check it ought reasonably to have been aware that this loan was likely to be detrimental to Mr O and recognised that it shouldn't have provided it.

So, I am upholding Mr O's complaint that he should not have been given the loan.

Putting things right

I think it is fair and reasonable for Mr O to repay the capital amount that he borrowed, because he had the benefit of that lending. But he has paid extra for lending that should not have been provided to him. In line with this Service's approach, Mr O shouldn't repay more than the capital amount he borrowed.

If Lendable sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Lendable should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr O received as a result of having been given the loan. The repayments Mr O made should be deducted from this amount
- if this results in Mr O having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement)
- if any capital balance remains outstanding, then Lendable should try and arrange an affordable payment plan with Mr O bearing in mind its obligation to treat Mr O sympathetically and fairly if he still needs further time to pay
- whilst it's fair that Mr O's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So Lendable should remove any negative information recorded on Mr O's credit file regarding the loan.

*HM Revenue & Customs requires Lendable to deduct tax from this interest. Lendable should give Mr O a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold this complaint and direct Lendable Ltd to take the steps I've set out above to put things right for Mr O.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 28 March 2022.

Susan Webb
Ombudsman