DRN-3277217

The complaint

Mr N complains that Lendable Ltd lent to him in an irresponsible manner.

What happened

Mr N was given two loans by Lendable. He first borrowed £1,000 in January 2020 that he agreed to repay in 12 monthly instalments. Mr N repaid that loan earlier than planned, in June 2020. The following month, Mr N took a new loan. He again borrowed £1,000 that he agreed to repay in 12 monthly instalments. And, as before, Mr N repaid that loan earlier than planned, in February 2021.

Mr N's complaint has been assessed by one of our adjudicators. He didn't think Lendable had been wrong to give either loan to Mr N. So he didn't think the complaint should be upheld.

Mr N didn't agree with that assessment. He said that if Lendable had looked at his bank statements it would have seen that he was suffering from a gambling addiction and that he was spending most of his normal income on gambling transactions. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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 Mr N's complaint.

The rules and regulations at the time Lendable gave these loans to Mr N required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Lendable had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr N. In practice this meant that Lendable had to ensure that making the repayments wouldn't cause Mr N undue difficulty or adverse consequences. 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 any repayments on Mr N.

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.

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 for (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).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Lendable did what it needed to before agreeing to lend to Mr N.

Lendable gathered some information from Mr N before it agreed each loan. It asked him for details of his income, and it used a third-party checking service to validate that payments of that size were being received into his bank account. And it checked his credit file to assess how much he was repaying to other creditors and how he had managed credit in the past.

Mr N was entering into a significant commitment with Lendable at the time of the first loan. He would need to make monthly repayments for a period of a year. So I would expect that Lendable would have wanted to gather at least some information about Mr N's normal living costs before it agreed to lend to him. I don't think it was enough to simply look at Mr N's income, and his credit commitments. I think it would have been proportionate for Lendable to ask Mr N for details of his normal expenditure before agreeing the loan. And I think that the same applies to the second loan – Lendable should have again asked Mr N to declare his living costs so it could calculate whether he would have sufficient disposable income to afford the loan repayments.

But although I don't think the checks Lendable did before agreeing either loan were sufficient, that in itself doesn't mean that Mr N's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown Lendable that Mr N couldn't sustainably afford the repayments. So I've thought about what better checks would have shown Lendable.

The credit checks results that Lendable received didn't suggest that Mr N was facing any current problems managing his money. It appears that he had faced some problems in the past – the credit check showed he had defaulted on accounts in 2015 and 2017. But Mr N had repaid both those outstanding balances before he asked for this loan. And more recently he had maintained any repayments in line with the credit agreements.

At the time he asked for the first loan Mr N's only outstanding credit was a small balance on a credit card. And his repayment history showed his credit card balance fluctuating from month to month suggesting that he wasn't using the card as a form of longer-term borrowing. By the time of the second loan there had been a small change in the credit check. Mr N had taken another loan out just a few weeks after he'd borrowed from Lendable in January 2020. I think that might have raised some concerns. But he'd maintained his repayments well on that loan, and his outstanding credit card balance had fallen. On balance I don't think there was anything in the results of either credit check that should have suggested Lendable needed to do more in depth checks.

So I think it would have been proportionate here for Lendable to have completed its checks by simply asking Mr N to self-declare his normal expenditure. I don't think it would have been necessary for Lendable to ask Mr N for bank statements, or other forms of evidence, to corroborate what he'd have said about his expenditure.

As I said earlier, Mr N has explained that he was spending heavily on gambling transactions at the time. But that wasn't something he declared to Lendable when he asked for either loan. And I'd agree with what he said about that – it would be nonsensical to say that he should have declared that expenditure if he wanted to be accepted for the loan. But for the same reasons I think it would be most unlikely that he'd have declared normal expenditure to Lendable that would have meant he couldn't afford the monthly repayments.

I appreciate that my decision will be disappointing for Mr N. Although I do think Lendable needed to ask him for some further information about his living costs, I don't think that Lendable needed to independently validate what Mr N would have said. I think that Mr N would most likely have told the lender that his expenditure was such that he would be able to afford his loan repayments. So I don't think Lendable was wrong to give either loan to Mr N.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Lendable Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 3 May 2022.

Paul Reilly
Ombudsman