DRN-3340419

The complaint

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

What happened

Lendable provided a loan to Mr W as follows:

Date taken	Loan amount	Term	Typical monthly repayment	Total amount payable	Loan status
12/08/2018	£3,000	60 months	£80.49.	£4,792.26..	Repaid 15/05/2019

When Mr W 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 ultimately she 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, given that Mr W said he would use the loan to repay other debt, it could've helped him improve his financial situation overall.

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 W'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 did its own background checks to verify Mr W's income and was satisfied it could rely on his average earnings being around £2,531 each month.

Lendable told us that it relied substantially on the information automatically reported by banks to credit reference agencies as this meant it was reliable. This included information about the money being paid into and out of Mr W's current accounts.

Lendable also carried out its own credit checks. Lendable saw that:

- most of Mr W's outstanding debt was a hire purchase agreement with a balance of £19,871 which cost him £319 each month
- he was £258 overdrawn on a current account with a £2,000 overdraft limit
- he had credit card accounts with a total balance of £2,887
- he owed a little over £3,000 in respect of two loans with monthly repayments of £52 and £59 respectively
- no accounts were in arrears or showing late payments during the last 20 months.

Bearing in mind that the loan was for the purpose of debt consolidation, and it would have been enough to clear his credit cards or most of his two other loans, Lendable was satisfied that the loan was sustainably affordable for Mr W.

I don't know the exact figures Lendable relied on when it made its lending decision. But I think our adjudicator was correct in saying that, regardless of whether the loan looked like it should be affordable, the lender's checks weren't proportionate. This was a substantial loan that Mr W was signing up to pay over the next five years so Lendable needed to be satisfied that he would be able to make the loan repayments sustainably over the whole loan term.

I think Lendable should've been concerned to see Mr W had taken out two other loans within the previous nine months and he was making full use of his credit cards. One of his cards had been taken out just four months or so earlier and he had immediately used most of the available credit it offered in the first month – and that card had stuck on that balance since. It was also apparent that he'd been making minimum monthly repayments only on a card that had a balance of almost £1,200 for the last eight months reported on the credit checks. Repayments at that level are insufficient to make any meaningful inroads into the balance owing and effectively extend the debt and can add significantly to the long term cost of that credit.

Looked at overall, I think there were clear signs that Mr W was already under financial stress – borne out by the fact that he was seeking a loan in order to repay other debt, which can be an expensive option, so it isn't something I'd expect someone managing credit well would be likely to want to do. And given the information on the credit report it saw, I think Lendable should've done more in-depth checks to ensure it had a proper understanding Mr W's overall financial situation so it could be satisfied this loan wouldn't be detrimental to him.

This means I need to look at what better checks would most likely have shown Lendable.

Bank statements provided by Mr W 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 W was making full use of his £2,000 arranged overdraft limit – the account was stuck in persistent overdraft often close to the account limit. And as his monthly pay on average was approximately £1,800 in the 3 months running up to him applying for this loan, this meant he was unable to bring his account back up to a nil balance. It looks like he might've been able to rely on another small regular payment (around £250) also going into his account each month – and this may go some way towards explaining the difference between the verified income amount Lendable relied on – but it makes no overall difference to his financial situation and it wasn't enough to allow Mr W to repay his overdraft.

This meant that Mr W was repaying his credit commitments using borrowed money from the bank – effectively shifting his debt between lenders. So the fact that Lendable saw he'd been routinely clearing the balance on his smallest credit card wasn't a reason to think he was in control of his spending, especially as the available credit on the card was used again the following month.

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

I've taken into account that the loan was intended for debt consolidation – and it does seem mostly to have been used to settle two big accounts (I can see settlement payments of £1,362 and £1,198 on Mr W 's bank statement). But given the relative loan value compared to the extent of Mr W's overall indebtedness on unsecured loans, credit cards and his overdraft, 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.

I think that's borne out by the fact that Mr W borrowed further from another provider of high cost credit barely a week later. And even though the loan from Lendable took his account out of overdraft, by the end of the same day it was paid into his account Mr W was overdrawn again – and back up to his overdraft limit by the time his pay next went into his account.

And I think there's a further reason why Lendable should've reasonably seen that the loan was unlikely to be sustainably affordable for Mr W. The monthly repayments for this loan and his vehicle finance alone amounted to at least 25% of his verified income. This didn't include repayments he also had to make to his credit cards or allow for his overdraft. I think in reality that Mr W needed to pay such a significant proportion of his income towards meeting his credit commitments that he was unlikely to be able to sustain the repayments for this loan over the five year term.

The fact that the loan was repaid early doesn't mean Mr W was able to do so in a way that was sustainably affordable for him.

For all these reasons, I think it was reasonably foreseeable that Mr W would most likely remain in serious financial trouble. And I believe that if Lendable had done a proportionate check it ought reasonably to have recognised that this loan was likely to be detrimental to Mr W and not provided it.

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

Putting things right

I think it is fair and reasonable for Mr W 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 W shouldn't repay more than the capital amount he borrowed.

Lendable should do the following:

- add up the total amount of money Mr W received as a result of having been given the loan. The repayments Mr W made should be deducted from this amount

- if this results in Mr W 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 W bearing in mind its obligation to treat Mr W sympathetically and fairly if he still needs further time to pay

- whilst it's fair that Mr W'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 W's credit file regarding the loan.

*HM Revenue & Customs requires Lendable to deduct tax from this interest. Lendable should give Mr W 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 W.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 30 March 2022.

Susan Webb
Ombudsman