

The complaint

Mr A complains that Santander UK Plc lent to him in an irresponsible manner.

What happened

Mr A was given a loan by Santander in July 2017. He borrowed £5,600 that he agreed to repay in 12 monthly instalments. Mr A repaid the loan, as planned, in July 2018.

Mr A's complaint has been assessed by one of our investigators. He didn't think Santander had been wrong to give the loan to Mr A. So he didn't think the complaint should be upheld.

Mr A didn't agree with that assessment. 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 A's complaint.

The rules and regulations at the time Santander gave this loan to Mr A 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 Santander had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr A. In practice this meant that Santander had to ensure that making the repayments wouldn't cause Mr A undue difficulty or adverse consequences. In other words, it wasn't enough for Santander to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr A.

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 Santander did what it needed to before agreeing to lend to Mr A.

Santander gathered some information from Mr A before it agreed the loan. It asked him for details of his income, and his normal expenditure. And it says it checked his credit file to assess how much he was repaying to other creditors and how he had managed credit in the past. But Santander hasn't provided us with the results of that credit check.

Mr A was entering into a significant commitment with Santander. He would need to make monthly repayments for a period of a year. So I think it was right that Santander wanted to gather, and independently check, some detailed information about Mr A's financial circumstances before it agreed to lend to him. But without the results of the credit check I cannot reasonably conclude that Santander's checks were proportionate.

But although I can't conclude that the checks Santander did before agreeing the loan were sufficient, that in itself doesn't mean that Mr A's complaint should succeed. I'd also need to be persuaded that proportionate checks would have shown Santander that Mr A couldn't sustainably afford the repayments. Mr A has provided us with a copy of his credit file so I am able to use that to see what it is likely the checks would have shown Santander.

Mr A told Santander that he was earning around £1,578 each month, and that his normal expenditure was £400. Given the circumstances of this loan application I don't think it was necessary for Santander to take further steps, such as asking Mr A for copies of his bank statements, to verify what he'd said about his disposable income. So it would seem reasonable for Santander to conclude, based on what Mr A had declared, that he would be able to afford the loan repayments in a sustainable manner.

Mr A's credit file doesn't suggest that Santander would have seen anything that I think should have caused any concerns. It appears that Mr A had managed his credit well in the past. At the time he took the loan he had two small credit card accounts, and an overdraft on his main bank account. Taken together I don't think those accounts should have led Santander to conclude that either Mr A was over-reliant on credit, or that he was facing any other problems managing his money.

I appreciate that over the following twelve months, although he repaid this loan on time, Mr A appears to have faced increasing pressure on his finances. He made another loan application to Santander in November 2018 that was declined, as the lender saw evidence of extensive short term borrowing when it checked his application. And that would suggest that Mr A was finding it difficult to meet his financial commitments over that time. But those problems were not apparent at the time Santander approved the first loan in 2017. So I don't think this complaint should be upheld.

My final decision

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

Santander UK Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 12 May 2022.

Paul Reilly
Ombudsman