

## The complaint

Miss M complains that Bank of Scotland plc trading as Halifax gave her a loan that she couldn't afford, without carrying out proper checks.

## What happened

In April 2018, Miss M took out a loan with Halifax for £6,000 over four years with an interest rate of 28.7% APR. She later fell into difficulties paying the loan.

Miss M said that she could never afford the loan and that she was approved in "minutes". She said that Halifax didn't properly assess her application.

I issued a provisional decision saying that I intended to uphold the complaint. My provisional findings (which form part of this complaint) were:

*I don't consider that Halifax carried out reasonable and proportionate checks before granting the loan to Miss M. It has told us that it approved the application based on a credit scoring exercise based on the information Miss M provided. But, in 2017, it had written to Miss M as it thought she needed help managing her overdraft. I think in view of that, what Halifax knew about Miss M's circumstances, the value of the loan and the interest rate, it would have been reasonable for Halifax to carry out a more thorough affordability check than it did and to verify the information it had received.*

*Miss M declared an income of £1,450 a month, commitments of £200 a month and mortgage/rent of £200 a month. Looking at her credit file, it showed £1,100 of short-term debt and around £700 on a credit card. She also had an overdraft of around £650. There were no late payments recorded on Miss M's credit file. I don't consider that her credit file showed any indications of financial stress or that the loan would be unaffordable.*

*Miss M also had a bank account with Halifax. Halifax has said that it would not have reviewed her bank account when assessing the borrowing. That was its choice. But I don't think it was reasonable for it not to consider this information in the circumstances of this case for the reasons set out above.*

*I've looked at Miss M's bank statements for three months prior to the loan being granted. It shows that Miss M was supplementing her income through short term credit – around £400 in January 2018, around £900 in February 2018 and around £700 in March 2018. It also shows that Miss M was spending on gambling over £250 in January 2018, over £900 in February 2018, and over £900 in March.*

*The bank statements showed that Miss M's income was around what she had declared. She was paid on 26 January but went overdrawn on 29 January 2018. In February 2018, she was paid on the 27<sup>th</sup> went overdrawn the same day. Miss M borrowed £1,000 on short term credit on 28 February 2018. In March 2018, Miss M was paid on the 27<sup>th</sup> and went overdrawn the same day. She borrowed £1,100 on short term credit on 27 March 2018.*

*I consider it is difficult to see how a lender acting reasonably and in line with the rules in the Consumer Credit Sourcebook could fairly consider that a loan of £6,000 was affordable and sustainable for Miss M based on the information in her statements. She was spending a high proportion of her income on gambling and regularly using short term credit to supplement her income. While her spending was largely discretionary it was clearly not sustainable – and it is difficult to see how further lending would improve her position. I can't see how the bank statements would support that Miss M would be able to meet the loan repayments over the term of the loan.*

*To put things right, I consider that Halifax should remove all the interest and charges it has applied to the loan and remove the record of the loan from Miss M's credit file.*

*The evidence we have shows that it is likely that Miss M would still have experienced financial difficulty even if she hadn't taken this loan. But it's clear that taking it out will have added to her indebtedness and increased her worry and stress about her finances. I consider it would be fair for Halifax to pay her £150 to reflect that.*

I proposed that Halifax should

- Remove all interest and charges that it has applied to Miss M's loan since its inception.
- Deduct all of the payments that Miss M has made to the loan from the remaining balance.
- If Miss M has paid too much then it should refund the overpayments with interest at 8% simple per year from the date each overpayment was made until date of settlement.
- Remove any record of the loan from Miss M's credit file.
- Pay her £150 to reflect the distress and inconvenience this matter has caused to her.

Both Halifax and Miss M accepted my provisional decision. Halifax said that £2,313.32 of interest and charges would be refunded. Of that, £1,539.91 would be used to repay the debt, with any surplus refunded with interest.

### **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.

Both sides have accepted what I said in my provisional decision. So I see no reason to change the conclusions I reached there as set out above. Halifax already had concerns about how Miss M was managing her finances when it gave her the loan. The standard checks weren't adequate in those circumstances. Miss M banked with Halifax and in the circumstances it would have been reasonable for it to check how that account was conducted. If it had done so, it couldn't reasonably have concluded that the loan was sustainable over its term.

### **My final decision**

My final decision is that Bank of Scotland plc should:

- Remove all interest and charges that it has applied to Miss M's loan since its inception.

- Deduct all of the payments that Miss M has made to the loan from the remaining balance.
- If Miss M has paid too much then it should refund the overpayments with interest at 8% simple per year from the date each overpayment was made until date of settlement.
- Remove any record of the loan from Miss M's credit file.
- Pay her £150 to reflect the distress and inconvenience this matter has caused to her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 24 May 2022.

Ken Rose  
**Ombudsman**