DRN-3583709

The complaint

Mr M complains through his representative that Lendable Ltd lent him money irresponsibly on a high cost loan that he couldn't afford to repay.

What happened

Lendable provided Mr M with a loan on 17 February 2020 for £3,300, repayable over 60 months at the rate of around £110 a month. He paid the first instalment in full but then got in touch with Lendable to ask if he could make reduced payments Lendable agreed to this, and subsequently Mr M made reduced payments through a debt management company. Interest on the account has been frozen indefinitely. Mr M complained through his representative of irresponsible lending.

Lendable said it had carried out the necessary checks, including verifying Mr M's income and carrying out a credit check. It assessed that the loan was affordable.

On referral to the Financial Ombudsman Service our adjudicator said that Lendable should've taken steps to build a more detailed picture of Mr M's financial situation. This could've included performing a credit search or asking him for more information at the time of lending – for example bank statements that showed his income and expenditure. However Mr M has only supplied bank statements for November and December 2019, and our adjudicator thought it appropriate for him to also supply these for January and February 2020. Without these she couldn't uphold the complaint as she didn't have sufficient information about Mr M's financial circumstances immediately before the loan was advanced.

Mr M didn't agree, pointing out that he had had severe problems with gambling as couulid be shown by the bank statements he had supplied. As of the date of this decision, no further bank statements have been supplied.

Thew matter has been passed me for further consideration.

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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Lendable complete reasonable and proportionate checks to satisfy itself that Mr M would be able to repay the loan in a sustainable way?

- If not, would those checks have shown that Mr M would have been able to do so?

The rules and regulations in place required Lendable to carry out a reasonable and proportionate assessment of Mr M's ability to make the repayments under this agreement. 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 loan would be sustainable. In practice this meant that it had to ensure that making the repayments on the loan wouldn't cause Mr M undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

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 the loan repayments on Mr M. 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. Even for the same customer, a proportionate check could look different for different applications.

I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- The *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income).

- The *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income).

- the *greater* the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

According to the credit report obtained by Lendable at the time of the loan application Mr M had seven loans and two credit cards with outstanding balances. I calculate, allowing for 5% payment of the balances on the credit cards, that this amounts to total payments of around £345 a month. With the new loan instalment added, this would have meant that he would have been paying around 26% of his assessed income of £1,711 a month on credit commitments. A ratio of over 25% may be of some concern, especially as Mr M's loans all seemed to be have been taken out in the previous 18 months. However three of those loans were from a telecommunications supplier.

I haven't seen any calculation of Mr M's disposable income. I would have thought, applying ONS (Office for National Statistics) data which allows for 35% of income to be spent on living costs, that Mr M had a sufficient disposable income after accounting for the new loan instalment.

So I haven't seen sufficient evidence to say that Lendable should have checked Mr M's financial status any further, for example his bank account wasn't overdrawn.

However if I were to find that Lendable should have carried out further checks, I would need to be persuaded that those checks would have revealed that Mr M couldn't afford the loan. Bearing in mind that he only paid one full instalment of the loan before setting up a repayment plan, it may well be that he couldn't afford the loan. But I doubt that that would've shown up in further checks. Mr M has supplied two bank statements – for November and December 2019. The November statement does show substantial gambling transactions, though the December statement doesn't show any. As I haven't seen the January 2020 statement I don't know what that would have shown.

But it's reasonable to suppose that Lendable might, if it had carried out further checks, have seen the December 2019 and January 2020 statements. I don't think there were any transactions in the statements I have seen that would have raised any concern. I can understand why Mr M might not have wanted to tell Lendable anything about his gambling but from the evidence I have seen and what Lendable might have obtained, I don't think it would have come to light.

So I'm unable to say, from the evidence I have seen, that Lendable didn't make a fair lending decision.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 22 August 2022.

Ray Lawley
Ombudsman