DRN-3818582

The complaint

Mr W says Lendable Ltd irresponsibly lent to him.

What happened

Mr W took out a 36-month instalment loan for £6,000 from Lendable on 6 May 2022. The monthly repayment was £240.84 and the total repayable was £8,678.94.

Mr W says proper checks were not carried out. He was in a cycle of credit reliance. He wants Lendable to freeze interest and charges and allow him to set up a payment plan to repay the capital borrowed without this negatively impacting his credit file.

Our adjudicator said Mr W's complaint should be upheld. He thought Lendable's checks were proportionate, but it did not make a fair lending decision. He said as Mr W was already spending a significant percentage of his income on credit there was a high risk this loan would not be sustainably affordable.

Lendable disagreed with this assessment and asked for an ombudsman's review. It said the majority of Mr W's debt was across two hire purchase agreements, and out of his five recently opened accounts two were hire purchase and one was a phone agreement. Mr W was managing all his active accounts well. Its checks did not indicate Mr W was having financial difficulties.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Lendable lent to Mr W 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 is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Lendable had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr W. 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 repayments on Mr W.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for.

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 W. So to reach my conclusion I have considered the following questions:

- did Lendable complete reasonable and proportionate checks when assessing Mr W's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Lendable make a fair lending decision?
- did Lendable act unfairly or unreasonably in some other way?

I can see Lendable asked for some information from Mr W before it approved the loan. It asked for details of his monthly income and verified this with a third-party source. It did not ask about his living expenses. It checked Mr W's credit file to understand his credit history and current commitments. From these checks combined Lendable concluded Mr W had enough monthly disposable income to afford to repay the loan.

I'm not wholly persuaded these checks were proportionate given the value of the loan and the level of debt Lendable saw on Mr W's credit file. I think Lendable ought to have completed a fuller financial review, but I won't comment further on this as even based on the checks it completed I don't think the lender made a fair lending decision. I'll explain why.

It could see from the credit check it completed that Mr W had around £37,000 of debt and it was costing him around £1,070 each month to service this debt. There were also some potential signs that Mr W was under financial pressure – he had used credit to access cash (£1,660 in the previous 12 months and £8,611 in the previous 36 months). Giving this loan meant Mr W would need to spend over 40% of his monthly income on servicing his debt. I think Lendable ought to have realised this meant there was a risk Mr W would not be able to sustainably repay his loan – that is, without needing to borrow to repay or without suffering some other adverse financial consequence. I don't think the nature of the credit, as Lendable argues, changes the risk it was placing on Mr W financial stability. And I note Mr W was only able to make his monthly payment for the first three months of this loan term.

It follows I think Lendable was wrong to give this loan to Mr W. I haven't seen any evidence Lendable acted unfairly or unreasonably in some other way towards Mr W. It froze interest and offered Mr W a reduced payment plan when he got in touch to say he was struggling.

Putting things right

It's reasonable for Mr W to have repaid the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been given to him. So he has lost out and Lendable needs to put things right.

It should:

- Remove all interest, fees and charges on the loan and treat all the payments Mr W made as payments towards the capital.
- As reworking Mr W's loan account will result in him having effectively made payments above the original capital borrowed, then Lendable should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr W's credit file in relation to the loan once the capital is repaid.

*HM Revenue & Customs requires Lendable to deduct tax from this interest. Lendable should give Mr W a certificate showing how much tax it's deducted if he asks for one.

My final decision

I am upholding Mr W's complaint. Lendable Ltd must put things right as set out above.

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

Rebecca Connelley
Ombudsman