

The complaint

Mr P complains that Santander UK Plc lent to him irresponsibly.

What happened

Mr P's complaint is about a loan provided by Santander. The loan was for £10,000 over a term of 60 months with monthly repayments of £227.97.

Mr P complains that Santander lent to him irresponsibly.

Our adjudicator upheld the complaint. She said that although the checks carried out by Santander were reasonable and proportionate, the information gathered from the checks showed that the loan was likely to be unaffordable for Mr P.

Santander disagreed. It said that Mr P had declared monthly income of £1617 and monthly outgoings of £750 at the point of application. It said that this left Mr P with monthly disposable income of £867, which it thought was sufficient to make the cost of the credit affordable. Santander said it used a combination of customer stated information, credit bureau information and ONS data to obtain an estimate of Mr P's outgoings. This showed estimated outgoings of £1223. Santander said it didn't agree with the adjudicator's conclusion that it was unlikely that Mr P would've been able to repay the loan. It said the loan had never fallen into arrears and was redeemed much sooner than its maturity date. Santander said the conduct of the loan account wasn't representative of someone in financial difficulties.

Santander asked for further clarification from the adjudicator and sent further representations before this complaint was passed to me. I've taken everything into account.

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 general approach to complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, is set out on this firm's website. I've had this approach in mind when considering Mr P's complaint.

Santander needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means it should've carried out reasonable and proportionate checks to make sure that Mr P could afford to repay what was being lent in a sustainable manner.

There's no set list of checks that a lender has to carry out. The checks must be borrower focussed and could take into account a number of things, such as the amount being lent, the length of the agreement, the amount of repayments, the total amount repayable and what Santander knew about Mr P at the time he applied for the loan.

When Mr P applied for the loan, he stated that his monthly income was £1617 and that his monthly outgoings were £750. This left monthly disposable income of £867 before the

monthly cost of the loan of £227.

As part of its checks, Santander verified Mr P's income and used credit bureau and ONS tools to estimate his expenditure. These tools estimated outgoings of £1223, and took account of housing and living costs, as well as the cost of existing credit commitments, based on lending date from the credit bureau.

Based on what I've seen and taking into account factors such as the term of the loan and the cost of the loan, I'm satisfied that the checks carried out by Santander were reasonable and proportionate.

I've gone on to consider whether Santander made a fair lending decision based on the information it had gathered from these checks.

In his letter of complaint to Santander, Mr P stated that his household outgoings at the time he applied for the loan were £1102. He stated that his existing credit commitments were £461. Mr P says that if Santander had carried out proper checks, it would've found that his outgoings exceeded his income, and that further credit wasn't affordable.

I've already said that I think the checks carried out by Santander were reasonable and proportionate. The information gathered by Santander doesn't correlate to the figures referred to by Mr P in his complaint letter. So, I've focussed on the information obtained by Santander at the time.

The checks carried out by Santander showed that Mr P had eight credit card accounts and one mail order account at the time of application. The information from the credit bureau showed that Mr S was utilising around £9100 of available credit of £21,000, or around 43%. Whilst I agree with Santander that Mr S hadn't maximised his existing credit at the time of the application, I think the overall level of unsecured debt was significant in proportion to Mr P's income. Existing credit payments (based on 5% of the unsecured debt balance) were £455 per month – this is information I've taken from the account performance summary produced by Santander's Risk Team. This figure isn't significantly different from what Mr S says he was repaying at the time in his letter of complaint. This means that Mr S was using a high proportion of his monthly income to repay of existing credit. However, Santander have based its affordability assessment on an assumed monthly payment of 2.5% of the balance (£248) when the performance summary suggests that Mr S was paying more than this.

The account performance summary shows that Mr S had monthly mortgage payments of £322. Santander's assessment assumed that Mr S was paying half of this because the mortgage was in joint names. However, Mr S has told this service that he was the only person bringing income into the household at the time so 100% of the mortgage payments were being met by him.

Looking at the information gathered by Santander, and taking into account the existing credit costs, the mortgage costs and other outgoings, I don't think this left Mr S with sufficient disposable income to afford the credit without needing to borrow further. Mr S's monthly credit repayments already represented a significant proportion of his monthly income. And taking into account the term of the loan, I don't think further credit was sustainably repayable.

I've taken account of all the points made by Santander. It has referred to another decision by this service which is says had similar facts but wasn't upheld. Each case referred to this service is decided on its own circumstances.

I appreciate that Mr P didn't default on the loan repayments and settled the loan early. I

agree that late payments, arrears and defaults tend to indicate that a consumer is experiencing financial difficulties. But the fact that Mr P didn't miss any payments and/or that he settled the loan early doesn't mean that he wasn't in a precarious financial position. Mr P has told this service that he had to borrow money from family and friends to meet the loan payments. And the early settlement may have come from another funding source rather than from Mr P's funds.

Taking everything into account, I don't think Santander lent responsibly to Mr P. It should take steps to put things right.

Putting things right

Mr P should only have to repay the money he borrowed and had use of. So I think Santander should refund all of the interest and charges Mr P paid on the loan.

Santander UK Plc should;

Add up the total amount of money Mr P received as a result of being given the loan. The repayments made by Mr P should be deducted from this amount.

(a)if this results in Mr P having paid more than he received, any overpayments should be refunded along with 8% simple interest, calculated from the date of the overpayment to the date of settlement

(b)if any capital balance remains outstanding, Santander should arrange an affordable payment plan with Mr P

Santander should remove any negative information recorded on Mr P's credit file in relation to the loan

HMRC require Santander to take tax off the refund of interest. Santander must give Mr P a certificate showing how much tax has been taken off if he asks for this.

My final decision

My final decision is that I uphold the complaint. Santander UK Plc must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 6 March 2023.

Emma Davy
Ombudsman