

Complaint

Mrs G has complained about a loan JN Bank UK Ltd (trading as “JN Bank”) provided to her. She says the loan was unaffordable as she already had a high level of existing debt and therefore it shouldn’t have been provided to her.

Background

JN Bank provided Mrs G with a loan for £5,000.00 in September 2021. This loan had an APR of 14.9% and a term of 60 months. This meant that the total amount to be repaid of £6,948.60, including interest, fees and charges of £1,948.60, was due to be repaid in 60 monthly instalments of just over £115.81.

One of our investigators reviewed Mrs G’s complaint and he thought JN Bank shouldn’t have provided Mrs G with her loan as it ought to have realised that it was unaffordable for her. So he thought that Mrs G’s complaint should be upheld. JN Bank didn’t agree with our investigator’s assessment. So the case was passed to an ombudsman for a final decision, as per the next stage of our dispute resolution process.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mrs G’s complaint.

Having carefully considered everything I’ve decided to uphold Mrs G’s complaint. I’ll explain why in a little more detail.

JN Bank needed to make sure it didn’t lend irresponsibly. In practice, what this means is JN Bank needed to carry out proportionate checks to be able to understand whether Mrs G could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

The information JN Bank has provided suggested that it carried out a credit check before this loan was provided. The results of which showed that Mrs G was already heavily indebted and a significant proportion of her monthly income was going towards repaying credit commitments.

I've also considered that the recorded purpose of this loan appears to have been debt consolidation. However, the amount advanced wasn't enough to clear Ms B's debts. In these circumstances, it's unclear to me how or what was going to be consolidated and more crucially just how the provision of this loan was going to reduce Mrs G's outgoings (and leave her in a better position) going forward.

All of this leaves me persuaded by what Mrs G has said about already being in a difficult financial position at the time. And while it's possible Mrs G's previous credit difficulties reflected her choices rather than financial difficulty, I'd add that my experience of these types of cases suggest this is unlikely, in the absence of any reasonable or plausible arguments from JN Bank, I've been persuaded to accept Mrs G's version of events.

As this is the case, I do think that Mrs G's existing financial position meant that she was unlikely to be able to afford the payments to this loan, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown JN Bank that it shouldn't have provided this loan to Mrs G. As JN Bank provided Mrs G with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards her.

Mrs G ended up paying interest, fees and charges on a loan she shouldn't have been provided with. So I'm satisfied that Mrs G lost out because of what JN Bank did wrong and that it should put things right.

Fair compensation – what JN Bank needs to do to put things right for Mrs G

Having thought about everything, JN Bank should put things right for Mrs G by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Mrs G made should be deducted from the new starting balance – the £5,000.00 originally lent. If Mr H has already repaid more than £5,000.00 then JN Bank should treat any extra as overpayments. And any overpayments should be refunded to Mrs G;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mrs G to the date of settlement†
- if no outstanding balance remains after all adjustments have been made, all adverse information JN Bank recorded about this loan should be removed from Mrs G's credit file.
- If an outstanding balance does remain once all adjustments have been made, JN Bank should get in contact with Mr H to arrange an affordable payment plan. I'd also remind JN Bank of its obligation to exercise forbearance and due consideration, in the event it intends to collect on an outstanding balance and it be the case that Mrs G is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Mrs G's complaint. JN Bank UK Ltd should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 10 April 2023.

Jeshen Narayanan
Ombudsman