DRN-4028223

## The complaint

Mr S complains that Retail Money Market Ltd trading as RateSetter irresponsibly gave him a peer-to-peer loan he couldn't afford to repay.

## What happened

In May 2018, Mr S applied for a peer-to-peer loan with RateSetter. His application was approved, and he was given a loan of £6,000. Mr S was required to pay 36 repayments of £207.67.

In March 2022, Mr S complained to RateSetter to say he shouldn't have been given the loan. He said that adequate affordability checks weren't completed and if they were it would have been clear he didn't have enough disposable income to repay the borrowing. Further, he said he had a gambling problem which would have been evident had RateSetter reviewed his bank statements before lending.

RateSetter didn't uphold his complaint. It said it had completed appropriate checks which showed that the loan was likely to be affordable to Mr S.

Our investigator didn't recommend the complaint be upheld. She thought RateSetter ought to have completed more thorough checks before lending to Mr S. She said this ought to have included asking Mr S about his committed monthly expenditure. However, she didn't think this further level of checks would have revealed any affordability concerns and therefore didn't think RateSetter had made an unfair lending decision.

Mr S disagreed. He provided a detailed breakdown of his monthly expenditure which he said demonstrated that prior to taking out the loan he was spending more than he was earning. He said his income was around £200 less per month than the figure RateSetter had used and he considered RateSetter should have reviewed his bank statements prior to lending to him.

The complaint has been passed to me for a final decision.

## 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.

The rules and guidance for lenders is set out in the Consumer Credit Sourcebook (known as CONC) within the regulator's handbook of rules and guidance. I've had these rules and guidance in mind when deciding whether RateSetter acted fairly and reasonably.

Before approving the loan, RateSetter were required to ensure that the borrowing was affordable and sustainable for Mr S. There isn't a set list of checks that it had to complete, instead it was required to ensure that any checks it did were proportionate in the circumstances. What is considered proportionate will vary as there isn't a one-size-fits-all approach. In deciding what is proportionate, RateSetter needed to consider things such as (but not limited to): The amount borrowed, the size of the regular payments, the cost of the credit, the term, the total repayable and the consumer's specific circumstances.

As part of the application, Mr S declared an annual income of £61,000 and a monthly income of around £3,600. RateSetter says it verified this information using a credit reference agency. RateSetter also completed a credit check which revealed no previous difficulty in repaying credit. It showed that Mr S had a mortgage commitment of £873 per month and unsecured loan balances totalling around £5,500 (with monthly repayments of around £600). Mr S also held five current accounts, three of which were overdrawn to a total of around £3,800.

RateSetter could therefore see that Mr S had around £9,300 in unsecured debt in addition to his mortgage. Mr S had declared on his application that the purpose of the RateSetter loan was for 'debt consolidation', so it would be reasonable for RateSetter to assume this is what Mr S would use the loan proceeds for. This means when deciding what proportionate affordability checks ought to be, RateSetter was entitled to conclude that its loan was unlikely to increase Mr S' overall unsecured indebtedness.

With this in mind, Mr S' monthly outgoings for credit commitments, including the RateSetter loan, was going to be around £1,700 (reducing to around £1,500 within two months when two previous loans were due to be repaid in full). This would have left Mr S with around £1,900, rising to around £2,100 per month, for his other committed expenditure based on the income he had declared. I think it's arguable that this would have been sufficient to demonstrate the lending was likely to be affordable to Mr S. However, given that Mr S had been overdrawn for some time across three current accounts, and notwithstanding that he had indicated the loan was for debt consolidation, I think it would have been proportionate for RateSetter to have done more before lending.

Mr S says that RateSetter ought to have reviewed his bank statements, but I don't agree. I think in the circumstances here, it would have been sufficient for RateSetter to have asked Mr S about his committed expenditure instead. I say this because Mr S had a significantly above average income, had no evidence of current or historic financial difficulty on his credit file and had a relatively modest amount of unsecured debt compared to his income. Further, the amount he was seeking to borrow wasn't significant when taking into consideration his income and existing credit commitments. It was only the make-up of his existing unsecured debt and the request for a consolidation loan that I think warranted some further probing of Mr S' expenditure, but not to the level he has suggested.

Mr S has provided a breakdown of his expenditure which he says demonstrates he was spending more than he was earning. However, parts of his expenditure summary couldn't reasonably be considered essential living expenses (such as holidays) and other expenses he has declared don't match up with the information contained in his bank statements (such as the amount spent on food). Taking into consideration what is evident from the bank statements, it appears Mr S had sufficient disposable income, after taking into account just his essential expenditure and credit commitments to comfortably meet the RateSetter loan repayments (even if I use Mr S' figure for monthly food spend of).

Mr S says his income was £200 lower than the figure RateSetter relied on. However, even if RateSetter had used the lower income figure, it appears Mr S would still have sufficient disposable income to service his credit commitments, the RateSetter loan and his essential living expenses.

Mr S says he had a gambling problem at the time and I think that is evident from the statements he's provided. However, I don't think this is something RateSetter knew about or would reasonably have found out about either. This is because I don't think RateSetter was required to check bank statements prior to lending to him, nor do I think it would have been proportionate or reasonable for them to have asked for this evidence in these specific circumstances.

## My final decision

For the reasons given above, I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr S to accept or reject my decision before 10 May 2023.

Tero Hiltunen
**Ombudsman**