DRN-4142435

The complaint

Miss R complains that the loan she had from Santander UK Plc was unaffordable to her.

What happened

Miss R had one loan from Santander in July 2021 as follows:

Loan	Date	Amount	Term	Monthly Repayment	Due
1	27 Jul 2021	£13,000	60m	£326.14	1 August 2026

Miss R says Santander should have noticed that she'd taken out short-term loans in the past and her credit cards were always at their limit. She says she had very high outgoings, including a re-mortgage taken out in March 2021, and new credit cards taken out in January 2021 and April 2021. She says Santander should never have approved the loan and that she had to enter into a Debt Management Plan (DMP).

Santander says it took into account a number of factors when deciding to lend to Miss R. It says this included information provided by Miss R combined with monthly credits, behaviour seen on her accounts and information from credit reference agencies. Santander says its investigations showed it did not make a mistake when agreeing to the lending.

Our investigator recommended the complaint should be upheld. He wasn't satisfied Santander had carried out proportionate checks and found that, had it done so, it would have seen that Miss R had insufficient disposable income to sustainably make the new loan repayments. Our investigator said that Santander should not charge interest on the loan and any relevant negative information should be removed from her credit file.

Santander responded to say, in summary, that, Miss R failed to declare her full housing costs during the application process and her mortgage was not reported by the credit reference agency. It said that it validated Miss R's declared income and that some of the loan was used to repay existing debts thus improving her financial position.

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.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Miss R's case, I have considered the following questions:

- Did Santander complete reasonable and proportionate checks when assessing Miss R's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
    - If not, what would reasonable and proportionate checks have shown?
- Did Santander make a fair lending decision?
- Did Santander act unfairly or unreasonably in some other way?

When Miss R applied for the loan, I've seen evidence to show Santander asked about the reason for the loan and her financial circumstances, and also checked her credit file. Miss R declared her income was £2,040, with expenditure of £1,400, including housing costs of £588. She also said she had two dependants. Santander verified her income, found she had existing monthly credit commitments of £214 and estimated her living costs to be £816 excluding housing. However, based on this information, I'm not satisfied the checks went far enough. I say that because:

- The loan was for five years, and Santander needed to be sure the repayments were sustainable for that period;
- Although Santander's credit check revealed no adverse information, it did show that Miss R had taken out three new credit agreements in the last six months, with combined credit limits of £6,600;
- With the new loan, Miss R was committed to spending over 26% of her income on credit repayments each month;
- Santander's affordability calculation showed Miss R had less than £100 of disposable income each month, after she'd made the new loan repayment.

Given Miss R's limited disposable income and the potential for utilising significant new sources of credit, I consider Santander should have verified Miss R's regular expenditure, including the figure she'd declared for housing. I can see Santander had access to her bank statements, so I find it reasonable that it should have used this information to better understand Miss R's financial situation.

Had it done so, it would have seen that:

- Miss R's income was around £2,360 per month;
- Housing costs, in a shared ownership scheme, totalled £1,027 per month;
- Regular payments for council tax, bills, insurance, television and phone were around £520;
- There were payments to the children's school of around £240 per month.

Taking all this into account, including existing credit commitments of £214, this left Miss R with about £360 with which to pay for food, travel and other regular expenditure. In addition, I can see frequent transfers in from Miss R's savings account – the balance of which had dropped by over £8,000 since 5 May 2021 to under £1,600. As such, I'm satisfied the new repayment was unaffordable to Miss R and Santander should not have approved the loan.

I acknowledge Santander said Miss R didn't declare her full housing costs and her mortgage was not showing on the credit report, but I find proportionate checks would have identified this additional cost. I also note that it said the loan was used to consolidate existing credit thus improving Miss R's financial situation. However, although I accept that was the case, Miss R initially declared she was using the loan for home improvements and Santander needed to assess the loan assuming her existing credit commitments would continue.

Finally, I've considered whether Santander acted unfairly in any other way. Santander says Miss R notified it she was struggling financially in December 2021, and it gave her 60 days respite on the repayments. I can then see it accepted reduced payments as part of the Debt Management Plan before the arrears were cleared in February 2023. I'm satisfied, therefore, that Santander acted reasonably when it responded to Miss R's financial difficulties.

So, based on all the evidence, I find Santander did not make a fair lending decision for the loan, although I can't see it acted unfairly in any other way.

My final decision

My decision is that I uphold this complaint. Santander UK Plc should:

- Add up the total amount of money Miss R received as a result of having been given the loan. The repayments Miss R made should be deducted from this amount.
    - If this results in Miss R having paid more than she received, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). *
    - If any capital balance remains outstanding, then Santander should attempt to arrange an affordable and suitable payment plan with Miss R;
- Remove any negative information recorded on Miss R's credit file about the loan.

* HM Revenue & Customs requires Santander to take off tax from this interest. Santander must give Miss R a certificate showing how much tax it's taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 11 July 2023.
Amanda Williams
Ombudsman