

The complaint

Mr S complains that Ikano Bank AB (publ) ('Ikano') irresponsibly granted him a personal loan agreement he couldn't afford to repay.

What happened

In August 2017, Mr S took out a personal loan with Ikano. Under the terms of the loan agreement, Mr S was borrowing £15,000 and paying it back by way of 59 payments of £272.96 followed by one payment of £272.85. The total repayable under the agreement was £16,377.49.

Mr S settled the outstanding balance on the account in February 2022.

Mr S says that Ikano didn't complete adequate affordability checks. He says if it had it would have seen the agreement wasn't affordable as he was already struggling with debt, including existing credit. Ikano didn't agree. It said that it carried out a thorough assessment which included using the information Mr S gave in his application and information provided by a credit reference agency.

Our adjudicator recommended the complaint be upheld. He thought Ikano ought to have realised the agreement wasn't affordable to Mr S.

Ikano didn't agree and said its checks were reasonable and proportionate.

The case has therefore 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.

Ikano will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it, but because I don't think I need to comment on it in order to reach what I think is the right outcome.

When Mr S applied for the agreement, he told Ikano he was earning around £27,000 from self-employed income. He also stated that he was paying £900 in rent each month. Ikano said it checked with a credit reference agency which showed Mr S to be a low lending risk, although it hasn't provided us with a copy of this. Mr S sent us his credit report which shows that he didn't have any adverse markings on his credit file, such as arrears, and there was no recent history of other adverse events such as having a county court judgment registered

against him. I've seen Mr S had some existing credit, largely by way of three credit card accounts, which I think it's reasonable to assume that Ikano would have been aware of this from its own credit checks.

From the available information I can't say that Ikano took steps to verify Mr S's income. I think it would be reasonable to do so, especially given that he'd told Ikano he was self-employed. And given that this was a relatively substantial loan that would be repayable over five years, I think Ikano should have asked Mr S for more details about his expenditure. Although Ikano says it completed a credit check, this won't have indicated what Mr S's regular living expenses were. So I don't think Ikano's checks can be said to be reasonable and proportionate.

Had it carried out better proportionate checks before making its lending decision, I think Ikano would have been in a much better position to understand more about Mr S's committed expenditure, such as his daily living costs. I can't be sure exactly what Ikano would have found out if it had asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr S's bank statements as to what would most likely have been disclosed.

I've seen that Mr S provided our adjudicator with three months of bank statements leading up to the lending decision. I agree with our adjudicator that these show Mr S's current account was consistently overdrawn at around £2-2,500. I've seen that Mr S was using his income and available bank balance for spending on everyday living expenses as well as paying his existing credit commitments. In addition, he was constantly having to pay his bank for being overdrawn.

Before our adjudicator prepared his uphold view, Mr S had sent in some further bank statements for a separate account. This was in response to a query by our adjudicator as to what other sources of income/funding Mr S may have had available to him at the time.

The second set of bank statements shows Mr S receiving his self-employed income, some of which was then transferred over to the other account. Mr S explained he also used this account to save towards having to pay his tax liability. As our adjudicator noted, this account was modestly in credit but shortly before the lending decision it was showing funds of only around £100.

Putting together all the bank statement information I've seen, I think Mr S was financially stretched at the time he applied for the loan. Having seen his credit report, I can see he was also relying heavily on his credit cards. I think occasional use of an overdraft facility is sometimes to be expected. But Mr S's account shows heavy reliance on his overdraft facility without ever being in credit. I can see what appear to be irregular income payments, some payments via paypal plus what appears to be monthly rental income of £450. But from what I've seen, in the months leading up to the loan Mr S doesn't appear to have been receiving an income comparable to what he put on his application.

I think all this demonstrates that Mr S didn't have enough disposable income to afford the additional borrowing he was seeking from Ikano. I think Ikano ought to have done more to look into Mr S's financial situation, especially given his self-employed status. Had it done so I think it would have seen that Mr S was already in financial difficulty and was unlikely to be able to meet the monthly repayments without experiencing further deterioration in his financial situation. Ikano therefore didn't act fairly by approving the finance.

Did Ikano act unfairly or unreasonably in some way?

Mr S is unhappy that Ikano registered a default on his credit file in December 2021 and says this happened without Ikano telling him. Mr S told us he'd settled the loan in full in or around March 2022, but then discovered that what appeared to be an outstanding balance on the account had been sold to a third party. Our adjudicator noted that the account had been incorrectly reported on Mr S's credit report between March 2022 and March 2023.

In February 2023, Ikano told Mr S it would recall the account from the third party and settle the outstanding balance itself. Ikano at first offered £50 for the distress and inconvenience it had caused Mr S. Following our adjudicator's review of the complaint, it agreed to increase its offer to £100. Having reviewed the details of this part of the complaint, I think that's a fair offer.

Putting things right – what Ikano needs to do

As I don't think Ikano ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or charges under the agreement. Mr S should therefore only have to pay the original loan amount, being £15,000. Anything Mr S has paid in excess of that amount should be refunded as an overpayment.

To settle Mr S's complaint Ikano should therefore do the following:

- Refund any payments Mr S has made in excess of £15,000. It should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Mr S's credit file regarding the agreement.

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

In addition, and as detailed above, Ikano should pay Mr S £100 by way of compensation for distress and inconvenience, if it has not already done so.

My final decision

I uphold this complaint and direct Ikano Bank AB (publ) to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 30 August 2023.

Michael Goldberg
Ombudsman