

The complaint

Miss Z complains that Santander UK Plc was irresponsible in its lending to her.

What happened

Miss Z was provided with a £15,000 loan by Santander in August 2018. The loan was repayable over 60 months with monthly repayments of around £356.

Miss Z says that when the loan was provided, she was only 21 years old and didn't fully understand the implications of taking on the borrowing. She says that Santander didn't carry out reasonable checks before providing the loan and had it done so it would have seen she wasn't employed at the time and wouldn't be able to afford the repayments. Miss Z says she has needed to borrow from relatives to make her repayments meaning she is unable to pay other bills. She says this situation has negatively affected her mental health.

Santander didn't accept that it had made a mistake by providing the loan. It said it relied on the information given in the application process.

Miss Z wasn't satisfied with Santander's response and referred her complaint to this service.

Our investigator upheld this complaint. He thought given the size and term of the loan and noting Miss Z's comment that she was a student at the time, that Santander should have carried out further checks, including verifying Miss Z's financial circumstances, to ensure the loan was affordable for Miss Z. He said that had further checks been carried out then Santander would have seen that Miss Z wasn't receiving a salary and so the loan shouldn't have been provided.

Santander didn't agree with our investigator's view. It said the loan was applied for in branch and that Miss Z provided details of her employment and declared her income to the personal banker. It noted that Miss Z signed the declaration to say the information provided was true and correct. Santander said that Miss Z's current account in the months leading up to the loan showed regular deposits and credits that could have been considered as income. It said that income and affordability checks were carried out in line with the regulations and commented that Miss Z had savings at the time the loan was provided and was considered low risk. It said Miss Z has made her repayments on the loan without issues which supports its decision to lend.

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 or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Santander has explained that the loan was taken out in branch and that Miss Z would have gone through the application form with a member of branch staff and that Miss Z provided details of her employment. It said that as Miss Z didn't display any high-risk indicators at the time no further income verification took place. While I note the comments Santander has made, I think that given the size and duration of the loan it would have been reasonable to verify Miss Z's income.

I have looked through Miss Z's Santander bank statements from the time and in the months leading up to the loan there is no evidence of a regular income. I have also looked at Miss Z statements from her other account and again I cannot see evidence of an income. Miss Z was making transfers between her accounts, and she was making deposits in cash into her Santander account. Miss Z has explained that she was working on a temporary basis for a family member (and this is the employer noted on her application form) which could explain the cash deposits. While this was income from employment, given the irregular nature I think it should have been questioned further. Had this happened I think Santander would have realised that Miss Z wasn't receiving a regular income at the time and that the amount she was receiving was significantly less than had been declared.

Santander has said that Miss Z has maintained her loan repayments and has noted her more recent employment. But I am considering whether the checks carried out at the time the loan was provided were reasonable and, in this case, I find that reasonable checks would have shown that Miss Z wasn't in receipt of a regular income. Without a regular income it wouldn't be clear how Miss Z would be able to make the loan repayments. While Miss Z has maintained her repayments, she has said that other bills have gone unpaid and she has had to borrow from relatives.

I note Santander's comment that Miss Z was low risk and had other savings which she topped up with some of the loan proceeds. I have taken this into account, but Santander needed to ensure the loan repayments were affordable for Miss Z for the duration of the loan. I do not have the details of Miss Z's total savings but can see Miss Z said she had savings of around £5,000. This wouldn't be enough to repay the loan and I note that at the time of the loan her current account was in overdraft. So, while I note the other comments made, I do not find I can say it was reasonable that this loan was provided when Miss Z didn't have a regular income that she could use to make the repayments.

Putting things right

In this case, I think it's fair that Miss Z should only have to repay the money she borrowed and had the use of. So, I think Santander should refund all of the interest and charges Miss Z has paid on the loan.

To settle this complaint, Santander should

- Add up the total amount of money Miss Z received as a result of having been given the loan. The repayments Miss Z has made should be deducted from this amount.

- If this results in Miss Z having paid more than she received, 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 Z.
- To the extent that there is any negative information recorded on Miss Z's credit file relating to the loan this should be removed.

† HM Revenue & Customs requires Santander to take off tax from this interest. Santander must give Miss Z a certificate showing how much tax it's taken off if they ask for one.

My final decision

My final decision is that Santander UK Plc should take the actions set out above in resolution of this complaint.

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

Jane Archer
Ombudsman