

The complaint

Miss R complains Retail Money Market Ltd trading as RateSetter lent to her irresponsibly.

What happened

In July 2017, Miss R took out a loan with RateSetter. It was for £15,000 and due to be repaid over 60 months. A fee of £2,070 was added to the capital, and her monthly repayments were around £360 per month.

Miss R has complained this loan was unaffordable for her circumstances. But after reviewing her complaint RateSetter didn't agree. They felt they carried out sufficient checks before approving the loan, and these checks suggested the loan was affordable. As Miss R disagreed with this outcome, she brought her complaint to our service.

Our Investigator didn't think Miss R's complaint should be upheld. While our Investigator didn't think RateSetter carried out reasonable and proportionate checks, the additional information provided by Miss R suggested she had enough of a disposable income to afford the loan.

Miss R disagreed with our Investigator, so her case was passed to me for a decision.

I issued my provisional decision on 20 November 2023. In this, I explained I was minded to uphold Miss R's complaint because had RateSetter carried out sufficient checks they ought to have realised the loan wasn't sustainable for her circumstances.

Both parties had until 4 December 2023 to provide any additional comments and/or information for me to consider. Both parties responded confirming that they accepted my provisional decision, so the outcome has remained the same.

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.

Having considered everything, I'm upholding Miss R's complaint. I'll explain my reasoning below.

RateSetter needed to make sure they didn't lend to Miss R irresponsibly. This means they needed to carry out proportionate checks so that they could understand whether Miss R could afford to repay the loan. Our approach to complaints about unaffordable and irresponsible lending is on our website, and I've used this approach to help me decide a fair and reasonable outcome for Miss R's complaint.

Did RateSetter carry out reasonable and proportionate checks?

Before arranging Miss R's loan, RateSetter considered the information provided in her application, alongside information reported on Miss R's credit file. And having reviewed Miss R's application, they wanted check they had the correct information about her salary, so they spoke with her over the phone. In this call, they asked Miss R to confirm her income and the reason for the loan.

Having reviewed the information (including a recording of the phone call), RateSetter understood that Miss R had an annual income of around £56,000 made up of her salary and income from rental properties she owned. Miss R also explained that she was consolidating her debts, so that she'd only need to pay for the loan and her car payment. Miss R went on to mention she'd recently taken out a loan for £15,000 to clear some other loans she had; and pay large portions of her credit card and catalogue account balances.

Having reviewed the information made available to RateSetter following their call with Miss R, I'm not persuaded the checks they carried out were reasonable and proportionate for them to satisfy themselves additional borrowing was affordable or sustainable for Miss R's circumstances. I say this because the Miss R's own testimony and credit file showed she had:

- Three loans (opened within the previous 18 months) with a total outstanding balance of just under £34,000.
- A credit card with an outstanding balance of just under £1,300.
- Hire purchase agreement with an outstanding balance of just over £29,000.
- Three mortgages where the monthly repayments totalled just over £1,100.

In addition to the above, the credit file indicated that Miss R had exceed the credit limit on her catalogue account 12 times.

While Miss R had indicated that she was trying to consolidate her debts, the information she provided suggested there may have been a reliance on borrowing. But also, the loans Miss R wanted to consolidate had outstanding balances that exceeded the amount she wanted to borrow. Even though Miss R said she had settlement figures for these loans, she wasn't asked to clarify what these were. So, when everything is taken into consideration, I think RateSetter ought to have requested further information to get a better understanding of Miss R's financial circumstances.

What would additional checks have shown?

It's not for our service to say what additional checks RateSetter ought to have carried out. But for me to make a finding on whether this loan was affordable or sustainable, I've reviewed Miss R's bank statements for the three months prior to taking out the loan complained of.

Having reviewed this information, I've seen Miss R's income (salary and rental income) totalled around £3,586 each month. However, her outgoings for her credit commitments (excluding the loans Miss R said she was consolidating), mortgage and RateSetter loan totalled around £2,647. This meant Miss R would have been left with around £939 each month for her council tax, utilities, food etc.

My opinion differs to our Investigator's because I saw payments of £1,550 each month for an estate/letting agent. So, when this is added to her credit commitments detailed above, Miss R was left in a deficit of around £611 each month. This suggests the RateSetter loan wasn't affordable for Miss R, and that she wouldn't have been able to sustain it without borrowing from elsewhere. Therefore, I don't think this loan should have been given to her.

As I don't consider Miss R should have been given this loan, I consider RateSetter needs to take steps to put things right. Miss R has had the benefit of the funds, so it's fair that she repays the capital she borrowed. However, I don't consider she should be responsible for any interest, charges and fees applied to the loan.

For the reasons above, I'm upholding Miss R's complaint about RateSetter.

My final decision

My final decision is that I'm upholding Miss R's complaint about Retail Money Market Ltd trading as RateSetter.

To put things right, Retail Money Market Ltd trading as RateSetter should:

- refund all interest, fees, and charges Miss R paid on this loan;
- add interest at 8% per year simple on any interest, fees, and charges from the date they were paid by Miss R, until the date of settlement*; and
- Remove any adverse information recorded on Miss R's credit file regarding the agreement.

*If HM Revenue & Customs requires Retail Money Market Ltd trading as RateSetter to take off tax from this interest, Retail Money Market Ltd trading as RateSetter 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 20 December 2023.

Sarrah Turay
Ombudsman