

The complaint

Mr P complains that Ikano Bank AB (publ) irresponsibly lent to him.

What happened

Mr P took out a loan over 60 months for £5,000 from Ikano in April 2016. It was repaid in full by August 2020. The monthly repayments were £118.91 and the total repayable was £7,134.54.

Mr P says the loan was never affordable for him as he already had a substantial amount of debt. This loan detrimentally impacted his mental health over a number of years. He asks for all interest he paid to be refunded and for compensation for the impact on his mental health.

Ikano says the checks it completed demonstrated the loan was affordable for Mr P.

Our investigator upheld Mr P's complaint. He said as Ikano's checks showed Mr P was heavily indebted it needed to do more before lending. Had it done so it would have seen the loan was unlikely to be sustainably affordable.

Ikano disagreed with this assessment and asked for an ombudsman's review. It said it had calculated Mr P would have more than £300 disposable income, he was up-to-date with all his active credit and he never missed a payment on this loan or asked it for help with financial difficulties.

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. Our approach is set out on our website and I've followed it here.

In summary, Ikano needed to complete proportionate checks before agreeing to lend to Mr P and then to make a fair lending decision based on the information it gathered. If I find it didn't complete proportionate checks I need to consider what such checks would most likely have shown and how this ought to have influenced the lending decision.

I can see Ikano gathered certain information before agreeing to lend. It asked Mr P for his income, residential and marital status, rent and the purpose of the loan. It carried out a credit check to understand his credit history and existing commitments. From these checks combined Ikano concluded Mr P could afford this loan.

Whilst these checks were a fair set of initial checks, based on the results they returned and the term of the loan I don't think they were proportionate without some additional investigation. I say this as the credit checks showed Mr P already had £23,700 of unsecured

debt, which was high relative to his declared income of £28,000. I am not saying it was an outright reason to decline the application, but it definitely ought to have led Ikano to carry out a fuller financial review. Particularly as at this stage it had not verified his income so it did not have any certainty around the proportion of his income that Mr P was spending each month on credit.

I have looked at Mr P's bank statements from the months prior to Mr P's application. I am not saying Ikano had to do exactly this but it is a reliable way for me to recreate what better checks would most likely have shown the lender.

They show Ikano was working with an overstated income assumption. Mr P's average net income was around £1,290, not £1,800. And he was spending £600 a month on loan repayments. This was a large percentage of his income and Ikano ought to have realised extending Mr P's borrowing would most likely cause him to need to borrow to repay or suffer other adverse financial consequences.

I accept Mr P said the loan was for debt consolidation, but Ikano didn't deploy any of the industry best practices such as finding out which debts Mr P intended to settle, or better still repaying the other creditor(s) directly. It argues its affordability assessment included the repayment of both existing debts and this new loan, but if it had verified Mr P's income it would have seen this meant he would need to spend 55% of his income on his debt. And I cannot see it can argue that would be sustainable, and without risk of causing financial harm to Mr P, over a five-year term.

In addition, I can see from his bank statements that Mr P was already persistently reliant on his overdraft facility – often a sign of financial strain. And he was spending a relatively significant proportion of his income on gambling – another indicator of financial instability.

In the round, had Ikano completed better checks I think it ought to have realised there was a risk Mr P would be unable to sustainably repay this loan. Ikano raised that Mr P made all his payments, but it does not know how he funded his repayments and so this does not change my conclusion.

It follows I find Ikano was wrong to lend to Mr P.

Putting things right

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 P should therefore only have to pay the original loan amount of £5,000. Anything Mr P has paid in excess of that amount should be refunded as an overpayment.

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

- Refund any payments Mr P has made in excess of £5,000. 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 P's credit file regarding the agreement.

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

Mr P also raised that this loan has increased his stress and impacted his mental health and for this he seeks compensation. But in the circumstances of this case, where I find that Mr P was already under a level of financial strain before this loan was accepted and where he

opted to apply for more borrowing, I find the redress above to be fair and reasonable. I have not seen any evidence that Ikano failed in its duty to assist Mr P during the term of the loan: it seems he did not disclose that he has having financial difficulties. I am therefore not making any further compensatory award.

My final decision

I am upholding Mr P's complaint. Ikano Bank AB (publ) must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 22 February 2024.

Rebecca Connelley
Ombudsman