

## **Complaint**

Mr D has complained about a loan that The Co-Operative Bank Limited Plc ("Co-op") provided to him. In effect, he says that the loan was unaffordable and so he should never have been lent to.

## **Background**

Co-op provided Mr D with a Professional and Career Development loan for £10,000.00 in October 2015.

Mr D's loan agreement indicated that £5,472.00 of the funds were fully restricted insofar as this amount was paid directly to his course provider. The remaining £4,528.00 was for the purpose of covering living expenses whilst Mr D completed what was to be a full-time postgraduate study course.

This was effectively a deferred repayment loan where Mr D did not have to make any repayments for the period he studied and the Skills Funding Agency ("SFA") (a government backed department) paid the interest, which would have normally accrued on a typical loan with deferred repayments, during this period. So Mr D's repayment schedule and any interests costs, for him, did not begin until November 2016 when he was due to start making his payments.

Mr D's loan had an APR of 9.9% and once repayments began a term of 60-months. This meant that the total amount to be repaid of £12,604.74, which included interest, fees and charges of £2,604.72, was due to be repaid in 59 instalments of £210.08 followed by a final repayment of £210, from November 2016 onwards.

One of our investigators reviewed what Mr D and Co-op had told us. And she eventually reached the conclusion that Co-op hadn't done anything wrong or treated Mr D unfairly. So she didn't recommend that Mr D's complaint be upheld.

Mr D disagreed with our investigator's assessment and asked for an ombudsman to look at his complaint.

## **My findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I've decided not to uphold Mr D's complaint. I'll explain why in a little more detail.

Co-op says it agreed to Mr D's application after it carried out a credit check on him. It says that it didn't see any adverse information at this stage. It also says it didn't do much in addition to this in terms of an income and expenditure assessment, as it was expected that Mr D was going to be a full-time student at that stage and he didn't have to make any repayments until a couple of months after his course completed.

On the other hand, Mr D has said he should never have been provided with this loan.

I've carefully thought about what Mr D and Co-op have said.

The first thing for me to say is that Mr D's loan wasn't a typical arrangement, as there was a clear understanding that he wasn't immediately able to make repayments as he was going to be studying. As a result of this Mr D was only required to make repayments to his loan once his studies were completed and a couple of months had passed to allow him to find employment. And this was due to happen from November 2016 onwards.

So while I appreciate that Mr D has read information regarding our general approach to considering irresponsible lending complaints as well as income and expenditure assessments, does not really apply to this type of deferred repayment (and interest) career development loan, where there is no expectation that the borrower will repay for some time. Any assessment of Mr D's ability to repay from November 2015 would have been academic as there was no need for him to make payments at this stage. Furthermore, the regulator's rules do permit a lender to lend on the basis of future earnings.

In any event, regarding Mr D's situation at the time of the application, Co-op says it carried out a credit search for the purposes of checking that Mr D had no significant adverse information. It says that Mr D didn't have any adverse information recorded against him at the time. Co-op has not provided a full breakdown of what it saw.

It says that it no longer has this, due the length of time that has passed since the application and Mr D's account was sold a number of years ago. Given the circumstances, I don't think what Co-op has said is unreasonable and I've drawn no adverse inferences from the lack of documentation – particularly as there has been no suggestion that Mr D did have significant adverse information recorded against him at the time.

I'm also mindful that the available information shows that Mr D was already committed to his course at the time he was granted this loan. The university Mr D's course funds were paid to provided a letter in support of Mr D's application, dated 25 September 2015, stating that Mr D commenced his registration on 28 September 2015. I am aware of the discrepancy in these dates but I think this is down to either the university letter being pre-prepared ahead of Mr D's registration for his course, or it should have been dated 28 September 2015.

Either way, the most important thing is that Mr D commenced registration for his course on 28 September 2015 and this was before he signed and dated the initial application for his loan on 30 September 2015. Furthermore, Mr D didn't sign his credit agreement formalising his loan until much later on – 30 October 2015.

So Mr D was already committed to paying his course and given he was always going to incur any living expenses that the remainder of the loan funds were earmarked to cover, it seems to me that Mr D would always have turned to some form of credit. I've not seen anything to indicate that Mr D had another source of funding in place and indeed if he had the funds available in cash, Co-op could in any event have taken this into account in any assessment of affordability. I think this is important given the fact that Mr D didn't have to make any payments during the period of his study and no interest would accrue during the period. So any other type of finance would also have been much more expensive.

As a result of the type of loan and Mr D's eventual need to make repayments, Co-op should probably have checked to see that Mr D would earn more once his course completed and that he could earn enough to make his payments. I don't know if Co-op did this. The suggestion is that it left this up to Mr D, rather than check this for itself.

However, Mr D was already enrolled to complete a postgraduate degree at a well-recognised institution. I think that there was a reasonable expectation this loan was likely to have increased Mr D's earning potential and lead to a salary that would have been sufficient to make the monthly repayments. I suspect that Mr D himself had such an expectation, at least at the time he was starting his course and he applied for this loan to cover the costs for this. So I think Co-op carrying out enquiries of this kind wouldn't have made a difference to its decision to lend here.

I accept that might not have happened or that Mr D may have gone on to take on further debts elsewhere which meant that by the time that it came to make payments he found them more difficult to make than he anticipated. However, I don't think that Co-op could have known that this would happen at the time of this application. So I don't think that Co-op's decision to provide this loan was unreasonable.

I realise that Mr D is also unhappy at what happened once he was unable to make his payments. Again the type of loan Mr D took out meant that the normal principles of forbearance did not apply and Co-op was limited in what it could do because Mr D's loan was backed by the SFA and it had strict criteria in relation to this.

Furthermore, it is not unusual or unreasonable for a lender to sell on an unpaid debt. And if Mr D is unhappy with the correspondence he's had from debt collectors and debt purchasers and any associated actions – these are matters he'll have to take up with these separately regulated firms.

Overall and having considered everything, I'm not persuaded that Co-op acted unfairly or unreasonably in its dealing with Mr D. And I'm not upholding this complaint. I appreciate this will be very disappointing for Mr D – particularly as the investigator initially, albeit erroneously, recommended that his complaint should be upheld. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

### **My final decision**

For the reasons I've explained, I'm not upholding Mr D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 11 March 2024.

Jeshen Narayanan  
**Ombudsman**