

The complaint

Mr E complains that Tandem Bank Limited lent to him when he could not afford it. He says that Tandem did not do the correct checks before approving the loan.

What happened

Mr E took one loan from Tandem in September 2021. It was for £15,000 plus interest and an arrangement fee which led to the total debt to pay off being £25,925.48. Some of the loan was used to pay off debts directly – two loans and a credit card. And the balance of the funds credited Mr E's bank and it was a figure of £6,727.54. The monthly repayments were scheduled as 71 at £360.08 and one at £359.80. Mr E has explained he's made overpayments to get the balance down because the interest was so high.

Mr E complained to Tandem in October 2023 and received its final response letter the same month in which it explained it had carried out correct searches before lending and did not uphold his complaint. Mr E referred his complaint to the Financial Ombudsman Service in October 2023.

One of our investigators considered it and thought that Tandem had carried out the proportionate checks expected of it and did not uphold Mr E's complaint. Mr E did not accept this and has explained he was in debt before he took the loan and worse after the loan. And Tandem ought never have given it to him. The unresolved complaint was passed to me to decide.

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.

We have set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

The rules and regulations in place required Tandem to carry out a reasonable and proportionate assessment of Mr E's ability to make the repayments under the loan agreement. This is referred to a '*reasonable creditworthiness assessment*'. A firm must base this on '*sufficient information*'

*'(1) of which it is aware at the time the creditworthiness assessment is carried out;
(2) obtained, where appropriate, from the customer, and where necessary from a credit reference agency, and*

the information must enable the firm to carry out a reasonable creditworthiness assessment.' – Consumer Credit Sourcebook (CONC) rule 5.2A.7.

CONC contains rules and guidance in relation to the factors that should be taken into account when deciding how much information is sufficient for the purposes of the

creditworthiness assessment, what information it is appropriate and proportionate to obtain and assess, and whether and how the accuracy of the information should be verified.

Tandem had to think about whether repaying the loan would be sustainable. In practice this meant that Tandem had to ensure that making the repayments on the loan wouldn't cause Mr E undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payments he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Tandem to approach the loan application from the perspective of the likelihood of getting its money back. Tandem had to consider the impact of the loan repayments on Mr E. Checks also had to be '*proportionate*' to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the Mr E (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr E's complaint. Having looked at everything I have decided to conclude the affordability checks were proportionate and the loan was not approved irresponsibly.

I have the advantage of financial information, records, copy bank statements and two sets of credit histories about Mr E. One set is the credit search results Tandem obtained in September 2021 before approving the loan. The other set is a more recent personal credit report sent to us by Mr E which covers the lending period. And Mr E has sent to us his bank statements for his account as well.

The relevant credit search for the purposes of my decision making is that obtained by Tandem at the time. Mr E had declared his monthly net income as £2,580. Mr E more recently has said to us that in the period April to August 2021 his salary was a stable figure but it became lower after that. But Tandem would have relied on what Mr E had told it and having carried out checks would have been satisfied that this was around the income figure and therefore utilised that figure as part of the creditworthiness assessment.

The Tandem credit search I have reviewed shows that Mr E had a mortgage with his partner costing £405 a month and Tandem correctly split that cost and so allocated £202 as a cost for Mr E. Mr E had explained his partner had a salary too.

Mr E's credit commitments were £25,983 for loans, £3,290 for revolving credit (which included his two credit cards) and had a small loan of £390 too.

Two loans were cleared – around £5,902 – directly by Tandem. One of the credit cards was cleared – around £2,528. Tandem was aware of his overdraft which at the time was around £1,803 on his credit report. And I have seen on Mr E's bank statements that the overdraft was £1,962 when the loan funds were credited to him. These would've reduced Mr E's credit commitments, as these were no longer to be paid and Tandem knew this at the time.

Tandem allowed for food, insurances, utilities and travel costs plus council tax and media bills which came to just under £655 each month.

Mr E, following our investigator's view, has listed a number of credit commitments he says that Tandem did not account for. Different searches carried out either by businesses or consumers can show different details which may go some way to explaining to Mr E why some other credit items may not have appeared on the Tandem search. Another reason is simply that a loan taken just before may not have been uploaded to the credit search companies database by September 2021. But it was open to Mr E to declare any recent credit commitments when he applied to Tandem. It seems he did not.

And unless Mr E told Tandem about him borrowing from his parents then I would not have expected it to have been aware of that. I've seen no evidence that Mr E informed Tandem of this.

I realise that Mr E thinks that Tandem ought to have had all the information he may have had before approving the loan. But the regulations covering responsible lending for regulated firms do not require that. I have decided, on all the evidence the checks carried out by Tandem were proportionate and I would not have expected it to have done more than it did before lending to a new customer with repayments of around £360 a month. Even accounting for the length of term, which I have done, still I think it did enough.

It would not have been expected, and it would have been disproportionate, for Tandem to have asked for and reviewed several sets of personal bank statements before lending Mr E this amount for this loan.

Applying the regulations surrounding responsible lending I do consider that Tandem carried out proportionate checks. And I do think that Mr E looked able to afford £360 a month.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 30 May 2024.

Rachael Williams
Ombudsman