

The complaint

Mr T says Tandem Personal Loans Ltd irresponsibly lent to him.

What happened

Mr T had two unsecured personal loans from Tandem. Loan 1 was taken out in October 2017 and was for £3,000 over 36 months. The monthly repayments were £120.54. Loan 2 was taken out in April 2019 and was for £7,500 over 48 months. The monthly repayments were £248.50. It was used in part to settle the loan 1. Mr T then took out a third secured loan from Tandem which is the subject of a separate complaint, and so will not be considered in this decision.

Mr T says Tandem lent the loans to him irresponsibly and they had unfair high interest rates. He was unable to afford them and he had to re-mortgage his home to pay them off. He says this has had a detrimental impact on his mental health. He wants all charges and interest refunded and asks for compensation.

Tandem says its checks were proportionate and showed that Mr T could afford to make the repayments. The interest rate for each loan was set out clearly and prominently on the loan offer and reflected its appetite to provide funding at the time of the applications. While the Bank of England rate was lower than the interest rate charged, it does not follow that the interest rate was unfair.

This service issued two assessments after investigating Mr T's complaint. I will summarise only the most recent here as that is the current view of this service. The investigator did not uphold Mr T's complaint. He found Tandem's checks for loan 1 were proportionate and showed the lending would be sustainably affordable. But whilst he thought the checks for loan 2 were not proportionate, he concluded better checks would not have shown the loan to be unaffordable for Mr T. With regards to the interest rates, he said Tandem provided Mr T with the credit agreements that stated the rates applicable along with the full terms. So Mr T had enough information which allowed him to make an informed decision of whether to accept the rate or reject it.

Mr T disagreed with this assessment, saying he did not understand how the initial assessment that found loan 2 was lent irresponsibly was no longer valid given it was based on the same data. The investigator explained that he had reached his conclusion as although the checks for loan 2 showed Mr T had a higher amount of debt, there were no signs that this wasn't being managed well. Also, he hadn't seen anything to suggest that the repayments were not affordable when he reviewed Mr T's bank statements.

Mr T asked for an ombudsman's review.

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 approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Tandem lent to Mr T required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Tandem had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr T. In other words, it wasn't enough for Tandem to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr T.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Tandem did what it needed to before agreeing to lend to Mr T.

So to reach my conclusion I have considered the following questions:

- did Tandem complete reasonable and proportionate checks when assessing Mr T's loan applications to satisfy itself that he would be able to repay the loans in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Tandem make fair lending decisions?
- did Tandem act unfairly or unreasonably in some other way?

I can see Tandem asked for certain information from Mr T before it approved the loans. It asked for details of his income. For loan 1 it verified this using a copy of his most recent payslip and for loan 2 it used an external verification tool. It estimated his living costs using national statistics and took into account his partner's contribution (but not their income). It also checked his credit file at the time of both applications to understand his existing monthly credit commitments and credit history. It asked about the purpose of the loans. Mr T said loan 1 was for home improvements and loan 2 was to settle loan 1 and for a holiday. From these checks combined Tandem concluded both loans were affordable for Mr T as loan 1 would leave him with £522.73 of monthly disposable income and loan 2 £1,162.52.

Loan 1

I think these checks were proportionate given the stage in the lending relationship, the value and term of the loan and the monthly repayment relative to Mr T's verified income. And I find Tandem made a fair lending decision based on the information it gathered. I'll explain why.

Tandem carried out an income and expenditure assessment that showed Mr T would have £522.73 disposable income each month after taking on this loan. It carried out a credit check that showed Mr T had £14,656 of unsecured debt. This was predominantly on a single hire purchase agreement. Mr T was managing his existing credit well – there were early arrears on a low value catalogue account which I understand was as a result of a dispute that was later resolved. There was no significant adverse data. So overall I cannot see there were any indicators that the loan might not be sustainably affordable for Mr T.

It follows I do not think Tandem was wrong to give loan 1 to Mr T.

Loan 2

This time, whilst I note Tandem's checks showed Mr T would have more disposable income than at the time of taking on loan 1, I think there were some signs in the initial results that suggested a fuller financial review was needed. So I'm not satisfied its checks were proportionate. I'll explain why.

This was Mr T's second application for credit from Tandem within 18 months. And the credit check showed Mr T had opened four new accounts in the last six months – and had rapidly used his new lines of revolving credit. Tandem could see that Mr T would be spending an increasingly high proportion of his income on unsecured credit. So I think Tandem ought to have carried out a fuller financial review before lending again to Mr T to get the assurances it needed that he was not becoming overly reliant on credit and that this loan was affordable.

In cases like this we look at bank statements from the three months prior to application in order to understand an applicant's actual financial position. I am not saying Tandem had to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown. And I don't think Tandem ought to have made a different lending decision had it reviewed such, or similar, data. Whilst Mr T had increased his use of credit it seemed to still be sustainably affordable for him. The statements show none of the typical signs of financial difficulties such as the reliance on an overdraft facility, frequent returned direct debts or the use of payday loans.

Overall, I can't fairly conclude that had Tandem carried out proportionate checks it ought not to have lent to Mr T. Also, the credit check it had carried out showed that whilst Mr T now had debt of £17,056 it was largely well managed with the worst payment status in the last six months being only one month of arrears (that had since been brought up-to-date) and there were no significant adverse entries such as defaults or CCJs.

It follows I do not think Tandem was wrong to give loan 2 to Mr T. To be clear, I don't dispute Mr T's testimony that he went on to struggle to make the repayments. I am sorry to hear this impacted his mental health. But as I don't think Tandem would have learnt about any financial instability from proportionate checks I cannot fairly find it was wrong to lend to Mr T. I hope he now has the support he needs - StepChange (tel: 0330 055 2198) and MIND (tel: 0300 123 3393) are organisations that can provide free debt advice and mental health support respectively, if not.

Did Tandem treat Mr T unfairly or unreasonably in some other way?

Mr T is also unhappy with the interest rate he was charged. But the credit agreements

clearly set out the cost of credit and the APRs and Mr T had to actively engage in the application process for his loans, so I think it's likely that he was aware of what he was agreeing to pay. I haven't seen anything which makes me think that Tandem treated Mr T unfairly or breached industry practice regarding interest charges.

My final decision

I am not upholding Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 8 May 2024.

Rebecca Connelley
Ombudsman