DRN-4735835

The complaint

Mr C complains that Bank of Ireland (UK) Plc lent irresponsibly when it approved a loan application he made.

What happened

In May 2021 Mr C applied for a debt consolidation loan for £11,000with Bank of Ireland. Mr C said he was employed with an income of £33,234 and a homeowner. Mortgage costs of £230 were noted and Bank of Ireland says it carried out a credit search to get a picture of what Mr C owed and to verify the level of income being paid into his bank account. Bank of Ireland says it found Mr C had around £782 a month in repayments. Bank of Ireland says that after it applied its lending criteria it found Mr C had around £474 in surplus income each month. After new repayments for the Bank of Ireland loan were factored in, Mr C was left with around £184 each month. The loan was approved and funds released to Mr C.

The loan subsequently fell into arrears and was closed at default. Last year, Mr C complained that Bank of Ireland had lent irresponsibly but it didn't agree. An investigator at this service looked at Mr C's complaint and upheld it. They weren't persuaded Bank of Ireland had carried out proportionate checks and thought its decision to approve Mr C's loan was unreasonable and had contributed to his worsening finances. Bank of Ireland didn't agree and said the loan was fairly approved in line with its lending criteria. As Bank of Ireland didn't accept the investigator's view, Mr C's complaint has been passed to me to make a decision.

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.

Before agreeing to lend, the rules say Bank of Ireland had to complete reasonable and proportionate checks to ensure Mr C could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I've reviewed the information Bank of Ireland had available when Mr C applied for his loan. Mr C gave an income figure of £33,324 which was calculated to be £2,165 net each month. Bank of Ireland says it verified Mr C's income via the credit reference agencies. But I think it's fair to note that one of the credit reference agencies returned a substantially lower income figure of £1,712 when compared against the £2,165 figure given in the application. Whilst I note that another credit reference agency also confirmed the income figure Mr C provided with some confidence, I find it difficult to understand why the lower £1,712 was disregarded instead of further investigations being completed.

I also note that whilst Mr C only declared debts of around £6,000 in the application, Bank of Ireland found he was making repayments of £782 each month. Bank of Ireland hasn't given us the figure it found for the total unsecured debts, but I'm satisfied monthly repayments at that level would indicate a substantially higher level of debt than the £6,000 figure noted in Mr C's application and ought to have prompted further investigation.

Given the information obtained in support of Mr C's income and the evidence from his credit file, I agree with the investigator that a more comprehensive approach to his application should've been taken by Bank of Ireland. There's no set list of checks a lender has to complete, but one option would've been to ask Mr C to provide some bank statements for the months preceding his loan application. Mr C has sent us three months' bank statements for the months before he took out his loan.

Whilst the bank statements are in Mr C's sole name, it's clear his partner's income was also being paid into it. But the statements show Mr C's income and regular outgoings, including payments he makes for credit and essential living costs each month. As our investigator has noted in their view of Mr C's case, it's difficult to say which of the commitments belong to him alone, although I've been able to match the majority of the credit payments to accounts on his credit file. But it's clear the income being received in the account each month was already being used to its full capacity.

Specifically, in all three of the preceding months, the outgoings from Mr C's bank account exceeded the total income received. That shows Mr C's finances were at a point where they were unsustainable already when he applied for a new loan and indicates he'd become reliant on credit to make ends meet. I appreciate Bank of Ireland may say that by agreeing the loan application it allowed Mr C to consolidate other debts and reduce his outgoings. But Mr C's credit file shows he had already taken the step of consolidating debts on various occasions but the pattern of borrowing continued.

I also think it's fair to say a closer review of Mr C's bank statements would've shown he wasn't earning in line with the £2,165 figure used by Bank of Ireland in the application. His average monthly income for the three months before his loan was approved was closer to £1,600 which is substantially lower.

Given the lower income Mr C was receiving at the time of his application and level of outgoings from his bank account each month, I think a more thorough review of his circumstances by Bank of Ireland would most likely have led it to decline his application. As a result, I agree with the investigator's view that Mr C's complaint should be upheld.

My final decision

My decision is that I uphold Mr C's complaint and direct Bank of Ireland (UK) Plc to settle as follows:

- Remove any interest and charges, and apply any payments received to the original loan amount of £11,000. If this results in a credit balance, Bank of Ireland should add

8% simple interest per year* from the date of the overpayment, if there were any, to the date of settlement. If there's a balance left to repay, compensatory interest won't be payable. Bank of Ireland should engage with Mr C or his appointed representatives to discuss a sustainable repayment arrangement for the remaining debt.

- Remove any adverse information recorded on Mr C's credit file regarding the loan once any outstanding balance has been repaid.

If Bank of Ireland has sold the loan, it should attempt to buy it back to put the above settlement in place. If that's not possible, Bank of Ireland will need to work with the current owner of the debt to put the settlement in place.

† HM Revenue & Customs requires Bank of Ireland to take off tax from this interest. Bank of Ireland must give Mr C a certificate showing how much tax it's taken off if he asks for one.
Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 21 May 2024.

Marco Manente
Ombudsman