

The complaint

Mr C complains that Metro Bank PLC trading as RateSetter lent irresponsibly when it approved his loan application.

What happened

In October 2021, Mr C applied for a £6,000 loan for home improvements with RateSetter over 60 months. In his application, Mr C said he was employed with an income of £35,000 and RateSetter calculated a net monthly income of £2,288. Mr C also said he was a homeowner and mortgage free. RateSetter carried out a credit search and found Mr C had around £29,300 in other unsecured debt. RateSetter didn't find any mortgages on Mr C's credit file.

RateSetter says it applied its lending criteria to Mr C's application and found that after a new loan payment of £128.09 a month was taken into account, he was left with a surplus income of £159. The loan application was approved and funds released to Mr C who made repayments for around seven months. The loan then fell into arrears and was closed at default by RateSetter.

Last year, Mr C complained that RateSetter had lent irresponsibly and it issued a final response. RateSetter said Mr C's loan had been approved in line with its lending criteria and didn't uphold his complaint.

An investigator at this service looked at Mr C's complaint and upheld it. They thought RateSetter should've done more, like reviewing Mr C's bank statements, before approving the application. And the investigator thought that if RateSetter had done additional checks, it would most likely have declined his loan application. RateSetter asked to appeal and said its calculations showed Mr C would've been left with a surplus income of £159.89 after his new loan payment was made. RateSetter also advised Mr C had failed to disclose his mortgage costs and a new loan so they didn't feature in its lending assessment. As RateSetter asked to appeal, 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 RateSetter 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.

Even accepting that Mr C's mortgage and a loan he'd recently taken weren't disclosed during his application, I think there were signs he'd become reliant on credit to make ends meet. Mr C's loan application was made on the basis of home improvements, not debt consolidation. So RateSetter needed to be sure Mr C could afford to maintain his existing commitments as well as pay his new loan payment. At the point of application, Mr C already owed around £29,300 of unsecured debt which, when compared with his income, was high. I'd have expected that, in itself, to have been something RateSetter would take into consideration.

In addition, RateSetter says that after Mr C's application was considered it found he had around £159.89 of surplus income each month after all his existing commitments and regular living expenses were covered. I agree with the investigator that £159.89 is low and meant Mr C would've had very little capacity to pay unexpected or emergency costs that may've arisen. In the circumstances, I think a more thorough approach to Mr C's application with additional checks would've been more reasonable. One of the options RateSetter had was to review Mr C's bank statements to get a better picture of his circumstances.

Mr C's bank statements for the months preceding his application show both his and his partner's were being paid into his account each month. And they also show living expenses along with Mr C's credit commitments were being paid from his account. I've been able to match the majority of the payments made towards lenders to Mr C's credit file.

I think it's clear that a review of Mr C's bank statements would've shown he was earning less than the £35,000 income figure noted in the application. In addition, a review of Mr C's bank statements would've shown he had commitments, like a mortgage and further loans, that weren't found on his credit file. Most significantly, RateSetter would've found in the months preceding Mr C's application, the outgoings were consistently higher than the income. The statements show the income being received into Mr C's account was already being used in full each month and he was spending more than received. The statement show there was no room for new repayments to be made without causing financial harm to Mr C.

I agree with the investigator that a more comprehensive level of checks, like looking at Mr C's bank statements, would most likely have led RateSetter to have declined his application. As a result, I'm upholding Mr C's complaint and directing RateSetter to refund all interest, fees and charges applied to the loan.

My final decision

My decision is that I uphold M C's complaint and direct Metro Bank PLC trading as RateSetter to settle as follows:

- Remove any interest and charges, and apply any payments they've received to the original loan amount of £6,000. If this results in a credit balance, RateSetter 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. RateSetter should engage with Mr C or his appointed representatives to discuss a sustainable repayment arrangement.

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

If the debt has been sold, RateSetter should attempt to reacquire the debt and apply the settlement. If that's not possible, RateSetter will need to liaise with the current debt owner to put the above settlement in place.

* HM Revenue & Customs requires RateSetter to take off tax from this interest. RateSetter 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