

The complaint

Mr W complains that Metro Bank PLC (trading as RateSetter) was irresponsible to lend to him.

What happened

Mr W was approved for two loans from RateSetter in February 2016 and March 2017:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Repayment</u>	<u>Settled</u>
1	21 Feb 2016	£5,000	18m	£299.18	31 Mar 2017
2	27 Mar 2017	£5,000	12m	£425.46	27 Mar 2018

Mr W says the loans were unaffordable from the start which resulted in him applying for the top-up a year later. He said RateSetter should have checked he could afford the repayments without having to borrow further. Mr W adds that he has been trying to pay back loans and credit cards for years but doesn't feel RateSetter has properly assessed whether the loans were responsibly lent.

RateSetter says it considered Mr W's credit history and affordability and that the applications met its minimum lending requirements.

Our investigator recommended the complaint should be upheld in part. He wasn't satisfied that RateSetter had carried out proportionate checks and considered that, had it done so, it would have found the second loan was unaffordable to Mr W. He recommended that Mr W should only have to repay the money he borrowed for loan 2 and that any overpayments should be refunded along with 8% interest.

RateSetter responded to say, in summary, that Mr W repaid loan 1 with the second loan which made the repayments on the second loan affordable.

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.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr W's case, I have considered the following questions:

- Did RateSetter complete reasonable and proportionate checks when assessing Mr W'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 RateSetter make fair lending decisions?
- Did RateSetter act unfairly or unreasonably in some other way?

Loan 1

I have considered the information from the checks carried out by RateSetter and it shows:

- Mr W's income was £2,500 per month;
- He had a partner and no dependants;
- The loan was to be used for debt consolidation;
- The credit check showed 5 active accounts:
 - His mortgage was £907 per month;
 - He was paying £598 per month towards a loan;
 - A hire purchase account had monthly payments of £209;
 - There was a credit card with a balance of £105 and a limit of £250;
 - A mail order account had a balance of £209 and a credit limit of £550;
 - No adverse information was showing;
- Affordability calculations showed a surplus of £13.57 per month;

I'm not satisfied these checks were reasonable and proportionate for the loan because:

- The loan was for a period of 18 months and RateSetter needed to be sure the repayments were sustainable for that period;
- Mr W was already committed to paying almost one-third of his income to credit repayments and the new loan increased this to around 45%, although I acknowledge he was planning to use the loan to repay existing debt;
- RateSetter had used an estimate for Mr W's other expenditure;
- The calculated surplus was unlikely to be sustainable for 18 months.

However, I can see from Mr W's bank statements and credit file that he did use the loan money to consolidate existing debt and, therefore, his monthly outgoings were reduced by over £600. So, I'm satisfied that proportionate checks were likely to have shown loan 1 was affordable to Mr W.

Loan 2

Again, I've considered the information from the checks carried out by RateSetter and this time it shows:

- Mr W's income was £2,070 per month and he had a partner and one dependant;
- The loan was again to be used for debt consolidation;
- The credit check showed three other active accounts and no adverse information:
 - His mortgage was £907 per month;

- He was paying £233 per month on a loan he'd taken out in September 2016;
- There was a credit card with a balance of £3,917 and a limit of £4,250;
- Affordability calculations showed a surplus of £77.46 per month;

Based on Mr W's credit commitments alone, I find it was irresponsible to have approved loan 2. I say that because, excluding his mortgage, Mr W needed to pay around £730 towards existing credit each month. This left him with about £430 before living expenditure was taken into account, and the new loan repayment was £425.

I accept that RateSetter says he used loan 2 to repay loan 1, but even the saving of £300 per month was unlikely to be sufficient to cover other regular living expenditure, especially considering Mr W now had a dependant.

So, in summary, I find the checks carried out by RateSetter at the time of loan 2 indicated the new loan was unaffordable to Mr W and it was irresponsible to have approved it.

I've also considered whether RateSetter acted unfairly or unreasonably in any other way, including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr W in the circumstances of his complaint and I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My decision is that I uphold this complaint in part. Metro Bank PLC (trading as RateSetter) should:

- Add up the total amount of money Mr W received as a result of having been given loan 2. The repayments Mr W made should be deducted from this amount:
 - Overpayments should be refunded along with 8% simple interest (calculated from the overpayment date until the settlement date)*. RateSetter should also remove any adverse information regarding this loan from Mr W's credit file;

*HM Revenue & Customs requires RateSetter to deduct tax from this interest. RateSetter should give Mr W a certificate showing how much tax it's deducted if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 22 July 2024.

Amanda Williams
Ombudsman