

The complaint

Mr C complains that TSB Bank Plc (TSB) lent to him irresponsibly. He says TSB didn't do enough to check he could afford to repay the lending sustainably. Mr C says the loan was unaffordable.

What happened

Mr C took out a loan for £16,000 with TSB in March 2021. The loan was to be repaid over three years with a monthly payment of just over £485. The total cost of the loan was just under £17,470.

Mr C complained to TSB about the lending. It explained it believed it had done the appropriate checks and based on the information it had the loan was affordable. Mr C was unhappy with this response and referred the case to this service.

One of our investigators looked into Mr C's complaint and ultimately concluded that the checks TSB had done weren't proportionate. He believed that if TSB had completed proportionate checks, it would have seen Mr C was already heavily reliant on credit elsewhere and would struggle to sustainably repay the debt.

Mr C accepted what our investigator said but TSB didn't respond to his findings. As there was no agreement, the complaint has been passed to me for 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.

Having done so, including consideration of the comments received following my provisional decision, I've reached a different conclusion to the investigator. I issued a provisional decision saying:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so I don't think TSB has unfairly extended credit to Mr C.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance, and good industry practice - on our website. I've taken that into account when considering Mr C's complaint.

TSB needed to take reasonable steps to ensure that it didn't lend irresponsibly to Mr C. This means that it should have carried out proportionate checks to make sure he could afford to repay what he was being lent in a sustainable way. I think there are key questions I need to consider to decide what is fair and reasonable in the circumstances of this complaint:

- *Did TSB carry out reasonable and proportionate checks to satisfy itself that Mr C was able to sustainably repay the loan?*
 - *If not, what would reasonable and proportionate checks have shown at the time?*
 - *Did TSB make a fair lending decision?*

There's no set list of checks a lender must complete, but it could take into consideration several different things, such as how much was being lent, the amount of the repayments and Mr C's income and expenditure.

I've taken all of this into account when considering Mr C's case.

When taking out the loan Mr C declared his income to be £2,500 which TSB verified. He also said he was living with parents and paying £100 a month in rent as well as spending £300 on other living costs. TSB checked this against ONS data and found average rent and living costs for someone in Mr C's circumstances to be higher at £197 and £507 respectively. So, it used these higher figures in its calculations.

So far this appears to be a reasonable assessment of Mr C's circumstances. However, TSB also found that Mr C was paying £650 a month to two other loans and £452 to other forms of credit. He had also listed the purpose of the loan to be 'other'. I think this indicates that Mr C may have become reliant on credit and should have prompted TSB to look more closely at Mr C's circumstances.

On the information it had TSB ought to have been aware that over 60% of Mr C's monthly income would have gone towards servicing debt if it lent to him.

Given the loan was going to significantly increase Mr C's indebtedness, I think it would have been fair for TSB to get a better understanding of Mr C's financial situation, as well as what he intended to use the funds for. While there's no set way of obtaining a better understanding, one way of doing so might have been to review Mr C's bank statements.

I've reviewed Mr C's statements for the 3 months leading up to the lending. Whilst there's no way of knowing what checks TSB would have done, I think had it carried out more thorough checks, TSB would have seen Mr C was reliant on his overdraft. It would also have seen that although his income averaged £2,500 a month it fluctuated between £2,200 and £2,900, potentially leaving him without any disposable income in a month.

Had TSB carried out proportionate checks I think it would have understood that lending to Mr C, would likely lead to his not being able to sustainably repay the loan alongside the repayments to his other debts.

The purpose Mr C gave for the loan ('other') was ambiguous. Given the level of debt Mr C had already, I think it would have been reasonable for TSB to get a better understanding of what Mr C intended to use the funds for.

Having looked at Mr C's transactions shortly after he took the loan out, I can see he used it to consolidate his existing debt. This brought his monthly payments towards debt down significantly. Had TSB asked more questions about this, I think it's more likely than not Mr C would have told them it was for debt consolidation given how he used the funds.

By consolidating his debts, Mr C reduced his repayments to credit from around £1,000 to £485. So, it's my view that the loan will have improved his financial position. While TSB should have looked more closely at his application, I think it's likely it would still have agreed to lend to Mr C for the purpose of debt consolidation. I think that decision would have been a fair one for it to reach. So, I don't think TSB have unfairly extended the loan to Mr C.

Although Mr C maintained payments to the loan for around a year, I can see that he did start to get into financial difficulties around a year later after taking out further lending. I would remind TSB of its obligation to treat customers in financial difficulties fairly.

TSB didn't respond to the provisional decision, but Mr C did. He disagreed with the provisional decision. The crux of his argument is that the lender failed to establish what the lending was for and it's unfair to assume that had this been queried further he would have said it was for debt consolidation. He doesn't feel it's fair for the service to take into account the impact of the lending or what it was used for given this wasn't disclosed at the point of application.

I understand Mr C's concerns but it's important for me to look at the whole situation surrounding the lending, and this includes what the funds were used for. Where information is incomplete, I must consider what I think is most likely to have happened given the other information available to me.

I agree that further credit, alongside the repayments for existing credit, would have been unaffordable for Mr C. However, the lending was used to consolidate other existing debt which significantly improved Mr C's financial situation. This can't be ignored. I have no evidence that Mr C ever intended to use the funds for anything other than debt consolidation or that Mr C's circumstances unforeseeably changed to make the lending affordable.

If Mr C had used the funds for a car or holiday, it's likely I'd have concluded he would have declared this if it was queried by TSB. However, he used the funds for debt consolidation, so it's reasonable to conclude he would most likely have told TSB this if it queried the purpose of the lending. So, it remains my view that it would have been proportionate for TSB to query what the lending was for and had it done so, it's most likely Mr C would have told them it was for debt consolidation.

So, although I think TSB should have gathered more information at the point of application, had it done so, I think it's likely the information it received would have made its decision to lend fair. It follows I don't think TSB unfairly extended the loan to Mr C.

My final decision

For the reasons I've set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 11 June 2024.

Charlotte Roberts
Ombudsman