

The complaint

Mr S complains that Lendable Ltd provided him with a loan that was unaffordable and has trapped him in a cycle of debt. He also complains that Lendable hasn't conducted a full and fair investigation into his complaint.

Mr S wants all interest, fees and charges removed from his account and compensatory interest. He then wants his monthly repayments reduced.

What happened

Mr S was provided with a £10,000 loan (£10,695 including fees) in February 2022. The loan was repayable over 48 months with monthly repayment amounts of around £364.

Mr S noted that at the time the loan was provided his credit file showed he had credit cards that were close to their limits, other debts and missed payment markers. Based on his credit commitments he thought the new loan shouldn't have been considered affordable and believed the total amount repayable wasn't reasonable given his salary. Mr S said that he was on sick pay at the time of the application and had been out of work since September 2021. He explained that he has medical assessments stating he isn't fit for work, and that this will continue for the foreseeable future. Mr S said that he has only been able to continue making repayments on the loan by borrowing elsewhere and cutting back on essentials.

Lendable issued a final response letter dated 29 December 2023. It said that before the loan was provided checks were carried out to ensure Mr S met its lending criteria. It said it concluded Mr S had a sufficiently healthy credit history. It conducted a review of Mr S's financial standing and noted he had declared he was employed full time and it validated his income. Lendable said that it wasn't aware of anything at the time of Mr S's application that would have prevented it from lending.

Mr S wasn't satisfied with Lendable's response and referred his complaint to this service. He said Lendable hadn't helped him with the issues he was experiencing and hadn't responded to all of the points he raised. He said that the loan wasn't affordable, and he wanted all interest, fees and charges removed from his account.

Our investigator didn't uphold this complaint. She didn't think that the checks carried out before lending were proportionate and said Lendable ought to have obtained information from Mr S about his specific expenses at the time (rather than relying on estimates) to ensure the lending was affordable. However, she said that based on the information provided she didn't have enough to be able to say that further checks would have shown the lending to have been unaffordable.

Our investigator noted the complaint that Mr S raised and thought that Lendable had responded to this. She didn't find evidence that Lendable was aware of Mr S's mental health issues before the lending was provided or that Mr S had said he was on sick pay at the time of his application. She noted the time taken for Lendable to respond to Mr S's complaint and that it had paid him £25 because of this which she thought was reasonable.

Mr S didn't accept our investigator's view and he provided further information about his financial circumstances at the time, including additional bank statements and testimony. He said that the checks carried out by Lendable weren't reasonable and so his complaint should be upheld.

My provisional conclusions

I issued a provisional decision on this complaint the content of which is set out below.

Mr S was provided with a £10,000 loan repayable over 48 months. As part of the application process, Mr S declared he was employed full time with a monthly income of £2,950. Lendable used a credit bureau product to confirm Mr S's income and an amount of £2,311 was verified. A credit check was carried out which identified that Mr S had total outstanding debt of around £13,807 which included loan and credit card debt. Mr S's credit file was used to calculate his regular payments towards his credit commitments and as Mr S had said the loan was for debt consolidation this was factored in.

In this case, while I note Lendable's comment that the new loan would be potentially advantageous to Mr S, I think it should have carried out further checks before lending to ensure that it had a full understanding of Mr S's financial circumstances at the time. I say this because Mr S's verified income was lower than his declared income. While his credit file didn't show clear signs of financial difficulty at that time (no recorded recent defaults or delinquent accounts, or county court judgements) he had a large number of accounts (48) of which 26 were active which could have raised concerns about whether he was taking out new credit to repay existing debt. Taking into consideration the size and term of the loan, and the points noted above, I think that Lendable should have carried out thorough checks to get a clear understanding of Mr S's income and expenditure at the time.

Mr S has provided copies of his credit report and bank statements. I note the comments Mr S has made in regard to Lendable's credit check but having looked through the credit file he provided, while this shows historic defaults (from 2016 and 2017) it also shows his accounts were at the time of the application generally being managed well (aside from a late payment recorded on a credit card account in December 2021). As Lendable undertook a credit check in February 2022, when the loan was applied for, I find it reasonable that it relied on the information received from this.

Lendable wasn't required to request copies of Mr S's bank statements but as I think further checks should have been carried out to ensure the lending was affordable, I have used these to identify what Lendable would most likely have identified had further checks taken place.

Mr S's bank statements show that his income in the months leading up to the loan being provided was around £1,674. I note Mr S's comment that he was on sick pay and had been out of work since September 2021, but I have nothing to suggest that Lendable was aware of this and I cannot say with any certainty that further checks would have resulted in Mr S declaring this. So, I have based my assessment on the information that Lendable would have identified through further checks, being Mr S having a monthly net income of around £1,674. Mr S received other transfers into his accounts from a business and also individuals which he has explained were loans from friends and family members to assist with his costs and that he needed to repay these amounts.

Mr S's bank statements show that he was paying £770 a month for rent as well as amounts for other housing costs such as council tax and utilities. As well as paying for his household bills, Mr S has explained that he also paid bills for a family member, and this is shown in the statements as there are two monthly council tax payments and other utilities where

payments are made for more than one account. Mr S has said that another family member did make transfers into his account to assist with some of the extra bills.

It isn't clear whether Mr S would have explained he also paid bills for a family member had he been asked about his expenses. So, putting the additional family member bills to one side, I have looked at what the bank statements show Mr S's non-discretionary expenses (excluding credit commitments), to be and these totalled around £770 a month. So, before credit commitments, Mr S's rent and other costs totalled around £1,540 a month. Deducting this amount from his income didn't leave sufficient funds for Mr S to make the repayments under the new loan. Obviously, this situation is more extreme if the additional costs Mr S was responsible for on behalf of a family member are also included.

So, while the loan was said to be for debt consolidation, as I find that further questions would have identified the loan to have been unaffordable even if the loan was used to repay other debts, I do not find that Lendable acted responsibly by providing the loan.

I note the other points Mr S has raised about how his complaint was dealt with. But, I find that Lendable did address the complaint Mr S had raised and apologised for the time taken to provide a response. It paid him £25 because of this. I find this reasonable and do not require Lendable to do anything further in regard to this issue.

Mr S and Lendable both accepted my provisional decision. As both parties have responded to, and accepted, my provisional decision, I am now able to issue a final 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

I set out in my provisional decision why I thought in this case it would have been proportionate for Lendable to have carried out further checks before providing the loan to Mr S. And my reasons why I think that further checks would have shown the lending to be unaffordable. As both parties accepted my provisional decision with no additional information being provided, my conclusions haven't changed. And I am upholding this complaint.

Putting things right

As I don't think Lendable should've arranged this loan, I don't think it's fair for Mr S to pay any interest or charges for the borrowing. However, I think it's fair he repays the funds lent to him.

To settle Mr S's complaint, Lendable should:

- Refund any payments Mr S made in excess of the amount originally lent. It should add 8% simple interest per year* from the date of each overpayment, if there were any, to the date of settlement.

- If, after deducting all payments from the amount lent, there is still an outstanding balance, Lendable should arrange a payment plan for the shortfall to be repaid.
- Remove any adverse information recorded on Mr S's credit file regarding the agreement once any outstanding balance has been repaid.

*HM Revenue & Customs requires Lendable to take off tax from this interest. It must give Mr S a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint. Lendable Ltd should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 14 June 2024.

Jane Archer
Ombudsman