

The complaint

Miss B is complaining about Lendable Ltd because she says it lent irresponsibly when providing her a number of loans she couldn't afford.

What happened

Between 2020 and 2023, Miss B took the following loans with Lendable:

- Loan 1 – November 2020 - £1,055 repayable at £101 per month over 12 months. The loan was repaid in May 2021.
- Loan 2 – July 2021 - £1,055 repayable at £94 per month over 12 months. The loan was repaid in October 2021.
- Loan 3 – December 2021 - £5,280 repayable at £243 per month over 30 months. The loan was repaid in April 2022.
- Loan 4 – September 2023 - £8,863 repayable at £359 per month over 48 months. This loan remains outstanding.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be partly upheld. My reasons were as follows:

Before lending to Miss B, Lendable was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of each lending decision are:

- *Did Lendable complete reasonable and proportionate checks to establish Miss B would be able to repay the loan in a sustainable way?*
- *If so, was the decision to lend fair and reasonable?*
- *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*

The rules, regulations and good industry practice in place at the time the loan was approved required Lendable to carry out a proportionate and borrower-focused assessment of whether Miss B could afford the repayments. This assessment also had to consider whether the loan could be repaid sustainably. In practice this meant Lendable had to satisfy itself that making payments to the loan wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of her making payments, it had to consider the impact of the repayments on Miss B.

The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.

Lendable has described the information it gathered to assess whether Miss B's loans were affordable before they were approved and this included:

- information contained in her application, including employment status and her income, which was separately verified; and*
- information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit, including missed payments and defaults.*

I'll now look at each loan in turn to consider whether the checks completed were proportionate and whether the loan was affordable.

Loan 1

Miss B declared her income to be approximately £1,600 and this was separately verified by Lendable. The credit check showed she had outstanding debt of around £2,000 and no recent defaults or missed payments. In view of the relatively low amount being lent on this occasion, I'm satisfied Lendable's checks were proportionate and the decision to lend was reasonable.

I'm not proposing to uphold the complaint about this loan and Miss B doesn't appear to have questioned this outcome.

Loans 2 and 3

On each occasion, Lendable's verification process suggested Miss B's income was considerably lower than the £1,600 recorded in its application data. I also note her overall debt had doubled to over £4,000 by the time of loan 2 and increased again to over £5,500 by the time of loan 3. I agree with the investigator that these factors should have prompted further affordability checks, particularly in respect of loan 3 where the amount being lent was considerably higher.

I also share the investigator's assessment that a review of Miss B's bank statements prior to each loan suggests she was unlikely to be able to sustainably afford the repayments and, had Lendable seen this information, I don't think it should have agreed to lend.

I'm proposing to uphold the complaint about these loans and Lendable has already accepted this outcome.

Loan 4

By the time of loan 4, the application data records Miss B's income had increased to £2,300. This may be explained by the fact she was recorded as working part-time when applying for the previous loans but was now recorded as working full-time.

This notwithstanding, I think there were other factors that should have led Lendable to carry out additional checks before approving this loan. In my view, a combination of the following factors should have prompted further investigation:

- The amount being borrowed was high, as was the interest rate (44.9%) and monthly payment (£359).*
- CRA data showed Miss B's debt had increased considerably again, this time to nearly £12,000 and she'd opened three new credit accounts in the previous six months.*
- CRA data also showed Miss B had and made only the minimum payment on her existing credit 21 times in the previous 12 months, compared to 27 times in the previous 36 months, and taken cash advances – normally a very expensive way to borrow – of nearly £900 in the previous 12 months.*

I believe this information suggested Miss B was already heavily indebted and potentially facing financial hardship and that further checks were required to complete a proportionate affordability assessment.

I can't know exactly what further checks Lendable might have carried out at the time, but I think a consideration of Miss B's actual income and expenditure would have been reasonable. So we've obtained copies of her bank statements for the three months prior to the lending to establish what information could reasonably have been discovered.

A review of the statements shows Miss B's average income (including child tax credit) for the three months before September 2023 was £2,320, in line with the figure in the application data. But a review of her outgoings shows she was paying rent of £418 and had childcare costs of as much as £900 per month. In August 2023, she also made payments to existing creditors totalling £738, including £233 to Reevo Money and £419 to Zopa. This left her with just £264 to cover all other expenses, including utilities and food.

Miss B has told us she was keeping up payments on her growing debt because she was 'robbing Peter to pay Paul' and I believe a review of her bank statements supports this. Most notably, she borrowed £9,000 from Zopa in July 2023 and £6,400 of this was used to repay a loan with Chetwood Financial. I note the stated purpose of the Lendable loan was debt consolidation but the evidence suggests to me that she was in a cycle of debt at this point and further high interest borrowing, even if it was used to pay off other debt, wasn't ultimately going to make any significant improvement to her overall situation.

On balance and taking everything into account, it's my view that if Lendable had seen this information it shouldn't have lent to Miss B.

I'm proposing to uphold the complaint about this loan.

In summary

For the reasons explained above, I'm not proposing to uphold the complaint about loan 1. But if Lendable had adequately assessed whether loans 2, 3 and 4 were affordable and sustainable, it's my view that it shouldn't have accepted Miss B's applications and I currently intend to uphold the complaint about this lending.

Both Miss B and Lendable accepted my provisional decision and made no further comment.

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.

As neither party has made any further submissions in response to my provisional decision, my findings haven't changed from those I set out previously.

Putting things right

The principal aim of any award I make must be to return Miss B to the position she'd now be in but for the errors or inappropriate actions of Lendable. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think Lendable should have given loans 2, 3 and 4 to Miss B, I don't think it's fair for her to pay interest or charges on the amount borrowed. But she has had use of the money that was lent, so I think it's fair she repays the amount borrowed (without the addition of interest or charges).

To put things right, Lendable should now take the following steps for each of loans 2, 3 and 4 separately:

- Calculate the total of all Miss B's payments towards the loan, including all interest, fees, charges and insurances (not already refunded).
- If this exceeds the amount borrowed (without the addition of interest, fees, charges and insurances), any excess above the amount borrowed should be paid to her with simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires Lendable to deduct tax from any interest. It must provide Miss B with a certificate showing how much tax has been deducted if she asks for one. If Lendable intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- If the total of all Miss B's payments doesn't exceed the amount borrowed, Lendable should arrange an affordable payment plan with her for any shortfall.
- Remove any adverse information recorded on Lendable's credit file relating to this loan, once any outstanding balance has been repaid.

If Lendable no longer owns the debt, it should liaise with whoever does to ensure any payments Miss B has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement to this complaint.

My final decision

For the reasons I've explained, I'm partly upholding Miss B's complaint. Subject to her acceptance, Lendable Ltd should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 3 July 2024.

James Biles
Ombudsman