

The complaint

Mr D complains that Metro Bank PLC, trading as RateSetter, failed to carry out appropriate affordability checks and failed to stress test his ability to repay, when he applied for two loans.

What happened

The details of this complaint have been set out by the investigator in her view, and I have summarised them here.

Mr D has told this service that he is in a lot of debt from legacy gambling issues. He applied for two loans with RateSetter in November 2021 and July 2022. In the last few months Mr D has said his mortgage repayments have increased significantly and he's now in serious financial difficulty. He complained to RateSetter. He said it shouldn't have approved the two loans.

In its final response RateSetter said it has stricter criteria than most lenders when assessing any application. It said based on the information Mr D provided all minimum lending requirements were met and the loans were approved based on the affordability criteria being satisfied.

Mr D didn't agree and brought his complaint to this service. He said with appropriate affordability stress testing at the time the loans would not have been approved. He said it was his belief that responsible lending should include a thorough assessment of the borrower's ability to manage repayments under various circumstances, including potential interest rate fluctuations. He said he was troubled by the apparent oversight in this regard, as the increased interest rates have substantially impacted his ability to meet his financial obligations. He said that while it was true he hadn't missed a payment RateSetter could see he was already tens of thousands of pounds in debt and it did not consider the impact of his mortgage increasing and, for the first time in his life, his potentially missing payments.

Our investigator concluded that the lending of the first loan was irresponsible. But that it went on to lend responsibly with the second loan.

Mr D and Metro Bank asked for a decision from an ombudsman. Both parties made some additional comments to which I have responded where appropriate below.

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 I agree with the conclusions reached by the investigator for the reasons I've outlined below.

I'm very sorry to hear that Mr D is having some financial difficulties. 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 and I've taken that into account when I have considered Mr D's complaint.

Loan One - November 2021

I do think Metro Bank should have carried out further proportionate, borrower focussed checks prior to loan one. I say this because:

- Metro Bank said it considered the credit commitments from the credit search along with the cost of the RateSetter loan and an underwriter reviewed the application and deemed this loan affordable. But in its final response letter Metro Bank said it has stricter criteria than most lenders in assessing any application. It said the three main considerations its underwriters consider are the affordability of the loan, the customer's credit score and the customer's past credit history. It says it assesses many factors including data entered on the application form, any previous applications and information held by third parties such as credit reference agencies.
- I've seen a copy of Mr D's credit file. At the time of his application for loan one he had 20 credit accounts which included an unsecured debt balance of £53,812 (including £14,694 in credit card balances), he was using 33% of his total credit card limit of £44,100 and had £39,118 in outstanding loans.
- Had Metro Bank looked more closely it would have seen in the five months prior to the application Mr D took out new loans totalling more than £30,000 and an additional credit card with a £2,400 credit limit. So Mr D had extended his credit significantly in a short space of time and his overall liabilities increased.

I think this activity so close to the time of the loan one application should have prompted further proportionate checks by Metro Bank. These checks could have included looking at recent bank statements.

In its response to our investigator's view Metro Bank said loan one was approved as Mr D had affordability to maintain the loan repayments. It said it verified Mr D's income which did not highlight any discrepancies from the information provided by Mr D on the application. Metro Bank noted that loans taken out just prior to loan one were used to reduce credit card balances. It said as affordability was passed, it had no need to ask for bank statements from Mr D and it was unaware of Mr D's gambling. I do understand Metro Bank went so far but I'm persuaded that it should have gone further on discovery of the new loans and credit card especially as it says it has stricter criteria than other lenders.

I've considered whether the decision to lend was fair. I've looked at the information obtained from the checks Metro Bank did do and what I think it ought to have done e.g. looked at bank statements.

I've looked at the statements for three months prior to the loan. I can see that Mr D was gambling at this time, including over 150 gambling transactions. Mr D hadn't disclosed his gambling to Metro Bank, and it appears he also hadn't included his other loans and credit cards on his application form. Had Metro Bank seen the statements it was likely foreseeable that additional loan funds could cause further indebtedness. So I'm persuaded that approving loan one was irresponsible.

Loan two – July 2022

I can see Metro Bank carried out an affordability assessment and the loan was deemed affordable. It concluded that after payment of the new loan Mr D would have around £1,419 a month in disposable income to absorb any non-discretionary costs and possible changes

to mortgage interest rates.

I do think Metro Bank should have also carried out further proportionate, borrower focussed checks prior to loan two. I say this because:

- Even with this disposable income at the time of his application for loan two Mr D had 20+ credit accounts which included an unsecured debt balance of £47,576 (including £8,739 in credit card balances) and was using 19.8% of his total credit card limit of £44,100, with £37,916 in outstanding loans.
- Mr D was applying for a loan of £19,000 over 60 months for further debt consolidation and had continued to consolidate his borrowing without significantly reducing his total debt balance or credit card limits, including revisiting Metro Bank for a further loan so soon after loan one.
- I think this activity so close to the time of the loan one application should have prompted further proportionate checks by Metro Bank. These checks could have included looking at recent bank statements.

However, had it done so it would have seen a significant reduction in gambling transactions when compared to the bank statements for the period prior to loan one. There were significantly fewer transactions, and these seem to be within affordable limits. Mr D told this service he was still gambling at this time, but to reduce his gambling he was avoiding online by using cash (travelling to outlets). He was also using a third-party online payment service. But I'm not persuaded Metro Bank would have been able to determine these as gambling transactions necessarily, using proportionate checks. And, unlike the months prior to the first loan, Mr D hadn't opened any further credit accounts since his first Metro Bank loan in November 2021.

I've considered whether the decision to lend was fair. I've looked at the information obtained from the checks Metro Bank did do and what I think it ought to have done e.g. looked at bank statements. Looking at Mr D's monthly disposable income, there was sufficient disposable income to afford the loan. Metro Bank's estimation of Mr D's disposable income at this time was conservative and appears able to absorb some increase in interest rates.

In response to the investigator Mr D said he wanted to ensure that a more holistic approach or view of the lending should be taken. I understand what Mr D is asking here. In examining Mr D's credit file for loan two Metro Bank was looking at the broader picture of Mr D's borrowing. I've concluded that Metro Bank should have gone further with its checks, but had it done so I'm not persuaded loan two was unaffordable, based on the information Metro Bank was reasonably able to see, especially as the visible gambling had significantly reduced.

Did Metro Bank act unfairly or unreasonably in some other way?

I've also considered whether the relationship might've been unfair under section 140A of the Consumer Credit Act 1974. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

Putting things right

- As I'm persuaded Metro Bank should not have approved loan one, I don't think it's fair for Mr D to pay any interest or charges for that lending.
- Mr D did have the use of the funds he was lent in November 2021, so I think it's fair he repays them.
- Metro Bank should therefore add up the total amount of money Mr D received because of having been given loan one. The repayments Mr D made should be

deducted from this amount.

- ☐ If this results in Mr D having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
- ☐ If any capital balance remains outstanding, then Metro Bank should arrange an affordable and suitable payment plan with Mr D.
- Once the balance has been repaid, Metro Bank should remove any adverse information recorded on Mr D's credit file regarding this agreement from November 2021.
- As I don't uphold the complaint about loan two, I won't be asking Metro Bank to do anything further here.

†HM Revenue & Customs requires Metro Bank to take off tax from this interest. Metro Bank must give Mr D a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I partially uphold this complaint and Metro Bank PLC, trading as RateSetter must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 27 November 2024.

Maxine Sutton
Ombudsman