

The complaint

Mr J is complaining about Lendable Ltd because he says it lent irresponsibly when providing him a loan he couldn't afford.

What happened

In December 2020, Mr J took a loan with Lendable for £3,200. This was repayable at £146 per month over three years, based on an interest rate of 42.86%.

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

Before lending to Mr J, 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 are:

- *Did Lendable complete reasonable and proportionate checks to establish Mr J 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 Mr J 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 him making payments, it had to consider the impact of the repayments on Mr J.

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 Mr J's loan was affordable before it was approved. This included:

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

Lendable maintains its affordability assessment was proportionate to the loan being given and demonstrated it was affordable.

After carefully reviewing the information Lendable obtained, I think there were factors that should have prompted it to carry out further checks before approving Mr J's loan and I don't agree the affordability assessment was reasonable and proportionate in this case. In my view, a combination of the following factors should have prompted further investigation:

- The amount being lent was significant and the interest rate high.*
- Lendable's credit check showed Mr J was already heavily indebted. He had unsecured debts totalling nearly £14,000 compared to his income. Lendable says it verified Mr J's monthly net income was around £1,500, which I calculate equated to roughly £22,000 per year before tax.*
- The credit check also showed Mr J had multiple credit cards and had taken several cash advances totalling £3,500 over the previous year. This is an expensive way to obtain cash and can be an indicator of financial difficulty.*

I believe this information suggests Mr J was already heavily indebted with some potential signs of financial difficulty. In view of the amount being lent and the high rate of interest charged, I think further checks were required to complete a proportionate affordability assessment in this case.

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

A review of the statements shows Mr J's income was somewhat unstable as he's said. While he received £1,550 from his employment for September 2020 and £1,508 for November, he only received £1,206 for October. It's also noticeable that Mr J's account went into overdraft in October and it was only because of a £2,000 payment from a family member at the end of the month, which Mr J says was a loan to help with his financial situation, that the account was returned to credit. But for that loan, the account would have still been overdrawn at the end of the month even after his wages had been received. It's also noticeable that at the end of November, before his wages were paid, the balance of Mr J's account was only £82 – not enough to cover the Lendable loan repayment.

There's no evidence Mr J intended to use the Lendable loan to repay any of his existing debt, thereby reducing some of his other expenditure. Instead, the application details provided record the stated purpose of the loan was 'home improvements'.

If Lendable had seen this information, in addition to what it had already obtained from its credit check, it's my view that it should have concluded the loan repayments were unaffordable and that it wasn't responsible to lend to Mr J. It's for this reason that I'm currently proposing to uphold his complaint.

Both parties accepted my provisional decision without 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 Mr J to the position he'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 lent to Mr J, I don't think it's fair for him to pay interest or charges on the amount borrowed. But he has had use of the money that was lent, so I think it's fair he repays the amount borrowed (without the addition of interest or charges).

To put things right, Lendable now needs to take the following steps:

- Calculate the total of all Mr J's payments towards the loan, including all interest, fees, charges and insurances (not already refunded).
- If this exceeds the £3,200 borrowed, any excess above £3,200 should be paid to him 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 Mr J with a certificate showing how much tax has been deducted if he 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 Mr J's payments doesn't exceed the £3,200 borrowed, Lendable should arrange an affordable payment plan with him for the shortfall.
- Remove any adverse information recorded on Mr J's credit file relating to this loan, once any outstanding balance has been repaid.

In reviewing this complaint, I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr J in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

For the reasons I've explained, I'm upholding Mr J's complaint. Subject to his 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 Mr J to accept or reject my decision before 25 September 2024.

James Biles

Ombudsman