DRN-5030845

The complaint

Mr C complains that Lendable Ltd should not have granted him a loan.

What happened

In December 2023 Mr C applied for a loan online. He was loaned £1,025 with an annual percentage rate ("APR") of 48.86% repayable in monthly payments of £61.43 over 24 months.

In May 2024 Mr C complained to Lendable that it had not carried out proper checks and taken account of his high credit usage. Lendable rejected his complaint and said the loan fell within its lending criteria.

Mr C brought his complaint to this service where it was considered by one of our investigators who recommended it be upheld. She said Lendable had carried out proportionate checks but she felt those checks should have indicated that Mr C had problems managing his money.

Lendable didn't agree and noted Mr C had been able to maintain his monthly payments.

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.

I have given a great deal of thought to this complaint and I have concluded that it should be upheld. I will explain why.

In order for me to be able to uphold Mr C's complaint I need to be satisfied Lendable didn't follow the correct rules and regulatory requirements when it provided the loan to Mr C. The rules that lenders need to follow are set out in a mix of regulations and legislation. A summary of the relevant code can be found on the FCA website under the Consumer Credit sourcebook ('CONC'). I have kept these rules in mind when reviewing Mr C's complaint.

When providing credit to a consumer, businesses must check two basic things. Firstly, the loan must be affordable, that is the business has to check that the consumer's priority bills (like food, rent/mortgage and heating etc.) are fully covered before it considers how much disposal income is left and whether the loan repayment would be affordable within that amount. Secondly it has to consider if the loan is sustainable. In other words, is it likely that the consumer will be able to maintain the monthly loan repayments over the full term of the loan without it causing financial problems?

In order to establish these two things businesses must carry out checks at the point of application. However, the rules set out in CONC don't require lenders to carry out specific checks, but rather 'sufficient' checks. Which means businesses can decide what sort of checks to run and what levels of risk they are prepared to take when providing loans to people.

As our investigator has said she believes Lendable carried out proportionate checks of Mr C's financial situation. I agree. It has explained what checks it made and provided an overview of its analysis of the information it obtained. In essence, it noted that Mr C had disposable income of £834 from a monthly income of £2,500. It also noted he had three delinquent accounts but felt that these were not such that he should be refused a loan. Lendable also reviewed Mr C's current account and felt he would be able to service the debt.

I can see that Mr C had 32 accounts of which 16 were active and of those 3 were delinquent. This shows a significant amount of borrowing, much of it short term and indicates a pattern of him struggling to manage his finances.

Our investigator has been able to dig a little deeper into Mr C's finances and has identified his income was a little larger than estimated by Lendable, but that his outgoings were also greater. She also came up with a disposable income figure not too different to that used by Lendable.

However, she noted in the six months before taking out the loan Mr C had been in payment arrangements for three accounts and had been pushing the limits of several accounts. These indicate he had problems managing his money shortly prior to the loan application.

I accept that Lendable provides finance to people with poor credit scores and so its criteria allow for this. I do have some sympathy with it in its dealings with Mr C. Lendable decided Mr C met its criteria and I can understand the decision, but I think that after due consideration it was not appropriate. I believe his financial situation was too unstable.

Mr C has said he accepts some responsibility for the situation and has not suggested the loan be written off. I agree and I think the investigator's recommendation provides a fair and reasonable solution.

Putting things right

To resolve the complaint, Lendable should add up the total amount of money Mr C received as a result of having been given the loan. The repayments made by Mr C should be deducted from this amount.

a) If this results in Mr C having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †

b) If any capital balance remains outstanding, then Lendable should arrange an affordable and suitable payment plan with Mr C.

† HM Revenue & Customs requires Lendable to take off tax from this interest. Lendable must give Mr C 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 and I direct Lendable Ltd to put thing right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 7 November 2024.

Ivor Graham

Ombudsman