

## **The complaint**

Miss K complains that Bank of Ireland (UK) plc, trading as Post Office Money, didn't properly check that a loan was affordable for her before lending to her.

## **What happened**

Miss K entered into a fixed sum loan agreement with Post Office Money for a loan of £9,000 in September 2022. She then had some financial difficulties and entered into a debt management plan. She complained to Post Office Money that it hadn't properly checked that the loan was affordable for her before lending to her. It responded to her in April 2024 and rejected her complaint. It said that, based on the information that Miss K had provided, her application passed a credit check, fraud checks and its affordability checks and satisfied its lending criteria.

Miss K wasn't satisfied with its response so complained to this service. Her complaint was looked at by one of this service's investigators who, having considered everything, thought that it should be upheld. He thought that Post Office Money ought to have found out more about Miss K's financial circumstances before lending to her and that, if it had completed reasonable and proportionate checks, it's likely that it would have seen that the repayments were unaffordable for her. He didn't think that it was fair for Post Office Money to charge any interest or charges on the amount borrowed and he recommended actions that it should take.

Post Office Money didn't agree with the investigator's recommendation and asked for Miss K's complaint to be considered by an ombudsman. It says that, having reviewed the bank statements that Miss K has provided: her income broadly matches what was declared to it and there are regular gift and top-up payments received to the account; Miss K received a loan of £6,640 in June 2022 which may not have shown at the credit reference agencies; her current account has only one closing balance within her arranged overdraft which suggests she was managing her finances well; there are no distinguishing features to suggest the loan shouldn't have been granted; Miss K paid all of her contractual instalments in full from the date the loan was set up in September 2022 until February 2024; Miss K was able to obtain further credit beyond that that it provided; her credit score showed that there was a 1.54% chance of a loan to Miss K going bad within 12 months; and the bank statements wouldn't have influenced its decision to lend.

## **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.

Post Office Money was required to ensure that it only lent to Miss K responsibly and to make reasonable and proportionate checks to ensure that the loan was affordable for her. It says that, based on the information that Miss K had provided, her application passed a credit check, fraud checks and its affordability checks and satisfied its lending criteria. But its affordability assessment showed that Miss K only had surplus income of £143 each month.

The purpose of the loan was for a car purchase and Post Office Money lent £9,000 to Miss K which was to be repaid over five years by monthly payments of £217.51. I don't consider that a surplus income of £143 each month was enough to show that Miss K could sustainably afford a loan of £9,000 with repayments of £217.51 over five years so I consider that it would be reasonable to expect Post Office Money to have made further checks to see whether the loan was affordable for her.

Although there are no set checks that it's required to make, the further checks would be expected to give Post Office Money a more detailed understanding of Miss K's financial situation. Post Office Money wouldn't have been required to obtain Miss K's bank statements but they can be a helpful way to get a more detailed understanding of a customer's financial situation.

Post Office Money's affordability assessment shows a declared net monthly income for Miss K of £1,652 but Miss K says that her take home pay was £1,480 each month and the bank statements that she's provided show a weekly income of £344.02, which I've calculated to be a monthly income of about £1,490. That is £162 each month less than the income shown in Post Office Money's affordability assessment and, if it had used an income of £1,490 in its affordability assessment, it would have shown that Miss K had a monthly deficit and no surplus income. I don't consider that the gifts and other top-up payments to which Post Office Money has referred are enough to show that Miss K's monthly income was higher than £1,490.

I consider that a more detailed understanding of Miss K's financial situation would also have shown that Miss K had taken out a loan of £6,440 in June 2022 with monthly payments of £194.11. So, if Post Office Money had made reasonable and proportionate checks to ensure that Miss K could afford the loan, I consider that it would be reasonable to expect it to have concluded that she couldn't sustainably afford a loan with monthly repayments of £217.51 over five years. I find that Post Office Money shouldn't have made the loan to Miss K and that it should take the actions described below.

The investigator also considered whether Post Office Money had acted unfairly or unreasonably in some other way given what Miss K had complained about, including whether its relationship with her might have been viewed as unfair by a court under section 140A of the Consumer Credit Act 1974. He said that he was recommending that Miss K's complaint should be upheld for the reasons he'd explained so he didn't think that he needed to make a finding on that. I agree with the investigator that the actions that I've described below result in fair compensation for Miss K in the circumstances of her complaint and I make no separate finding as to whether the loan agreement caused her relationship with Post Office Money to be unfair to her.

## **Putting things right**

Miss K has received £9,000 from Post Office Money and has had the benefit of the money that it lent to her so I consider that it's fair and reasonable for her to repay that money to it. But I consider that it isn't fair or reasonable for it to charge any interest or fees on the loan. I find that Post Office Money should deduct all of the payments that it's received from Miss K under the loan agreement from the £9,000 that it lent to her.

Post Office Money should then arrange an affordable and suitable payment plan with Miss K for the balance that she owes and act with forbearance. It noted in its final response letter to Miss K that she was on a debt management plan and was paying a reduced monthly amount of £83.40 but the payment plan will have to consider what she can now fairly and reasonably afford to pay.

When the balance has been treated as repaid in full, Post Office Money should remove all information about the loan agreement that it's recorded on Miss K's credit file.

## **My final decision**

My decision is that I uphold Miss K's complaint and I order Bank of Ireland (UK) plc, trading as Post Office Money, to take the actions described above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 4 November 2024.

Jarrold Hastings  
**Ombudsman**