Financial Ombudsman Service

The complaint

Mrs P, through a representative, says Lendable Ltd irresponsibly lent to her.

What happened

Mrs P took out two instalment loans from Lendable. The first, in February 2021, was for £5,500 over 48 months; the monthly repayments were £182.83 and the total repayable was £8,613.86. The second, in November 2022, was for £1,000 over 36 months; the monthly repayments were £39.72 and the total repayable was £1,429.84.

Mrs P says, in summary, Lendable failed to properly assess the suitability of the lending.

Our investigator did not uphold Mrs P’s complaint. He said whilst the lender’s checks were not proportionate for loan 1 it could fairly have made the same lending decision had it completed better checks. He said the checks were proportionate for loan 2 and it was fair for Lendable to give Mrs P loan 2.

Unhappy with this assessment Mrs P asked for an ombudsman’s review. She said the loans were unaffordable. In summary, she was gambling at the time; had other credit commitments and Lendable did not take into account her living costs.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I’ve followed it here.

The rules and regulations when Lendable lent to Mrs P required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Lendable had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mrs P. In other words, it wasn’t enough for Lendable to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mrs P. Checks also had to be proportionate to the specific circumstances of each loan application.
In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Lendable did what it needed to before agreeing to lend to Mrs P.

So to reach my conclusion I have considered the following questions:

- did Lendable complete reasonable and proportionate checks when assessing Mrs P's loan applications to satisfy itself that she would be able to repay the loans in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Lendable make fair lending decisions?
- did Lendable act unfairly or unreasonably in some other way?

I can see Lendable asked for some information from Mrs P before it approved the loans. It asked for details of her monthly income and verified this with a third-party source. It checked Mrs P's credit file to understand her credit history and current commitments. From these checks combined Lendable concluded Mrs P had enough monthly disposable income to afford to repay the loans and cover her essential expenditure.

Loan 1

I don't think Lendable's checks were proportionate. I'll explain why.

Lendable verified Mrs P's monthly income to be £850. It learnt from its credit check that she had £8,813 of debt, her credit utilisation was 89% and she was in an arrangement to pay on two mail order accounts. So given Mrs P's relative low income and possible signs of financial strain I think Lendable needed to check Mrs P's actual expenditure to ensure it probably understood her disposable income before lending.

In cases like this we look at bank statements for the three months prior to lending, I am not saying Lendable had to do exactly this but it is a reliable way for me to know what better checks would have most likely shown. As the investigator explained there are a number of different income streams on the statements provided by Mrs P. We asked for clarification on these various credits but received no reply. So, any income that appears not to be from employment or to be a consistent receipt each month has not been considered.

After reviewing Mrs P's housing and living costs and her existing credit commitments it seems that she had disposable income of on average £600 a month and so could afford to take on this loan. And that is before taking into account that it was for debt consolidation and so her credit commitments should reduce.

In this context I don't think the payment plans for the low value mail order accounts were reason enough to decline Mrs P's application. Her last six months of payment history across all accounts was stable suggesting she had resolved any short-term issues.

It follows I find it was fair to give loan 1 to Mrs P.

Loan 2

I think the checks were proportionate for loan 2 given the low monthly repayments relative to her income. And I think Lendable made a fair lending decision.

It was able to verify an increased monthly income for Mrs P of £1,600. The credit checks showed her overall debt had decreased slightly to £8,417 and her credit utilisation had fallen to 76%. There were two accounts with one month's arears but there was no significant adverse data on her file. Lendable calculated Mrs P would have 77% of her income remaining after meeting her existing credit commitments. So I find it was fair for Lendable to conclude Mrs P could sustainably afford the additional loan cost of £39.72 a month. In the circumstances of this application it was reasonable for Lendable to rely on verified income and a credit check – given the results of those two checks - without reviewing Mrs P's expenditure.

Mrs P said the purpose of this loan was debt consolidation again. I think as Lendable could see from its credit check that she had settled a revolving debt with loan 1 it was fair to conclude Mrs P was continuing to try to manage her finances in a more cost-effective and affordable way.

It follows I find it was fair to give loan 2 to Mrs P.

In response to the investigator's assessment Mrs P said as her bank statements showed regular gambling activity it was wrong to lend to her. But I do not think the value of her spend on gambling, including the national lottery, was such that Lendable ought to have declined her applications. Also it would not have been aware at the time of loan 2 as I have not found it needed to complete fuller checks then.

I have already addressed her other two points about having existing credit commitments and Lendable not looking at her living costs. To recap, Lendable did take into account Mrs P's existing credit commitments and although it did not look at her expenditure for loan 1, had it done so it could fairly have made the same lending decision. As I said, I did not find it would have been proportionate to check her outgoings for loan 2.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Lendable lent irresponsibly to Mrs P or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

I am not upholding Mrs P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 1 January 2025.

Rebecca Connelley
Ombudsman