

The complaint

Mr A complains that Santander UK Plc (Santander) didn't sufficiently check whether he could sustain the repayments for two loans he'd with them.

What happened

In November 2021 Mr A entered into a Fixed Sum loan agreement with Santander for £5,000 repayable over 60 months at £116.26 a month, with interest and charges applied the total amount Mr A needed to repay was £6,925.60. In February 2023 Mr A entered into a second Fixed Sum loan agreement with Santander for £7,000 repayable over 60 months at £182.09 a month. After interest and charges were applied Mr A needed to repay in total £10,925.40. Mr A said he took out the two loans within a short time, and that he was borrowing to repay other borrowing. He complained to Santander saying they hadn't properly checked whether he could afford the loans before they agreed to lend to him.

Santander said they used application data, credit bureau checks and statistical data to assess Mr A's outgoings. Based on the evidence they'd gathered they considered the lending for both loans was affordable and that they'd made a fair lending decision.

Mr A wasn't happy with Santander's response and referred his complaint to us.

Our investigator didn't agree that Santander's checks had gone far enough as they hadn't verified Mr A's income. After considering Mr A's credit report and bank statements for two of Mr A's bank account she said Mr A wouldn't have had sufficient income to sustain the repayments for either loan. And asked Santander to put things right.

Santander agreed the February 2023 loan was unaffordable for Mr A and agreed to put things right as directed by our investigator. But they didn't agree that the loan they approved in November 2021 was unaffordable, as they considered his disposable income sufficient to maintain the loan repayments. They added that this was supported by how Mr A had managed the account. Santander asked for an ombudsman to decide.

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.

Firstly, Santander has accepted that they shouldn't have lent £7,000 to Mr A in February 2023 and our investigator has shown Santander how to put this right, so I won't comment further about this loan. What remains in dispute is the £5,000 loan approved in November 2021.

Our general approach to complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, is set out on our website. I've had this approach in mind when considering Mr A's complaint.

Santander needed to take reasonable steps to ensure that they didn't lend irresponsibly.

This means they should have carried out reasonable and proportionate checks to make sure that Mr A could afford to repay what was being lent in a sustainable manner.

There's no set list of checks that a lender must carry out. But the checks must be borrower focussed and should consider several things, such as the amount being lent, the length of the agreement, the number of repayments, the total amount repayable and what Santander knew about Mr A at the time he applied for the loan. I'd expect the checks to be more thorough the higher the lending, the longer the borrower is indebted for, and the lower the borrower's income.

When Mr A applied for the loan, he stated that his monthly income was £3,100 and that his monthly outgoings were £1,500. If these figures were accurate this would mean Mr A had a disposable income of £1,600 before the new lending of £116.26 was factored in.

As part of their checks, Santander said they used application, credit bureau and statistical data to assess Mr A's income and outgoings. Mr A stated he'd a monthly income of £3,100 and Santander estimated his outgoings inclusive of the new lending of around £116. to be £2,049. This being made up of £351 mortgage, £1,027 living costs based on statistical data from the Office for National Statistics and £555 for Mr A's credit commitments based on credit bureau data. This would have left Mr A with more than £1,000 in disposable income for discretionary spending and unexpected costs.

While Santander has shown they've taken reasonable steps to estimate Mr A's outgoings. CONC says a lender shouldn't solely rely on a customer's declared income but should seek verification. I can't see that Santander did this. And given the length of time Mr A would be indebted for I think they should have. So, I don't think their checks went far enough.

But saying Santander should have done more before lending to Mr A doesn't automatically mean his complaint should succeed. I also need to be persuaded that what I consider to be proportionate checks would have shown Santander that Mr A couldn't sustainably afford the credit.

As previously mentioned, there isn't a set list of checks that a lender should make, but bank statements will I think usually provide a good understanding of someone's financial situation as they should show their income and essential outgoings.

Mr A has provided his bank statements for the three months prior to the lending. I can see from his main employer Mr A had an average monthly income of around £2,225 and from a secondary income an average income of around £405, So in total Mr A's monthly income was £2,630 Less than the amount he'd declared on his application.

I've considered Mr A's non-discretionary spending from both of Mr A's bank statements, his mortgage, utilities, insurances, food, car running costs, media, credit commitments, bill payments and interest charges. I differ slightly with the calculation of our investigator. Mr A made regular payments to an on-line platform, from his credit report this showed he'd a credit card/store card with them. Mr A also had a mail order account whilst his credit report shows the account was inactive for several months prior to his loan application it had again become active in October 2021. Taking these factors into account I consider Mr A had outgoings of around £2368 a month. This would have left him after factoring in the new lending of around £116 with a disposable income for discretionary and unexpected costs of £146. Mr A is a homeowner, with a partner and two dependents. So, I don't think Mr A would have had sufficient disposable income to be able to sustain the repayments for this loan.

Mr A said he was borrowing to help with other lending he had, he'd told Santander that the loan was for debt consolidation. I haven't seen any evidence of Mr A or Santander clarifying

the debts he intended to consolidate. And Mr A's credit report doesn't show any debts being settled after receipt of the loan itself.

I've also considered whether Santander acted unfairly or unreasonably in some other way given what Mr A has complained about, including whether their relationship with him might have been viewed unfair by a court under Section 140A Consumer Credit Act 1974. But I'm satisfied the redress I've directed based on what I've seen results in fair compensation for Mr A, so no additional award would be appropriate in this case.

Putting things right

Mr A has had the benefit of the £5,000 loan and I think it's fair that he should pay this back. But I don't think he should pay any interest and charges that have been applied to the loan.

My final decision

I uphold this complaint. And ask Santander UK Plc to:

- Rework the loan account removing all interest, fees, and charges that have been applied. If the rework results in a credit balance, this should be refunded to Mr A along with 8% simple interest* per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information recorded regarding this account from Mr A's credit file. Or, if after the rework there remains an outstanding balance to arrange an affordable repayment plan with Mr A for the remaining amount. And once any outstanding balance has been settled remove any adverse information recorded in relation to the account.

*HM Revenue and Customs requires Santander to deduct tax from any award of interest. They must give Mr A a certificate showing how much tax has been taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 5 June 2025.

Anne Scarr
Ombudsman