

The complaint

Mr L has complained about a loan Metro Bank PLC trading as Ratesetter provided to him. He says the loan was unaffordable and therefore shouldn't have been given to him.

What happened

In February 2022 Mr L applied online for a £10,000 fixed sum loan with RateSetter. The interest rate was fixed at 4.60% per annum, and the total repayable, including the loan fee and interest, was £11,021.04. He had to make 24 monthly repayments of £459.21.

Mr L made the first three monthly payments, but then from June 2022 his payments failed. No payments were made until February 2023 then Mr L made some ad-hoc payments.

In August 2024, Mr L complained to RateSetter to say the loan should never have been provided to him. RateSetter didn't think it had acted unfairly when lending to Mr L.

Our investigator didn't recommend the complaint be upheld. Whilst he thought RateSetter could have done more in the way of affordability checks, had it done so he thought there was nothing that suggested Mr L wouldn't be able to afford the borrowing.

Mr L didn't agree, so the complaint was passed to me to decide.

What I've decided – and why

I issued a provisional decision in February 2025, the findings of which said:

'The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case. What is proportionate will vary with each lending decision and considers things such as (but not limited to): the amount of credit, the size of the repayments, the cost of the credit, the purpose the credit was taken out for and the consumer's circumstances.

Essentially, Mr L needed to be able to meet his financial commitments and not have to borrow elsewhere to repay RateSetter for the loan to be considered affordable and sustainable.

RateSetter has provided information to show it asked Mr L about his income and searched his credit file before lending. From the application form Mr L completed for the loan, he declared he was self-employed, single with no dependents, a tenant and had a gross income of £32,500. The net monthly income on the application form was around £2,150. RateSetter has said it verified Mr L's income electronically. The application form said Mr L wanted the loan to consolidate existing debts.

RateSetter completed a credit check which showed that Mr L had two current accounts with a total overdraft facility of £1,650 and a credit card with a limit of £1,250. The credit check showed he wasn't utilising his overdraft facility, and he owed around £230 on his credit card.

RateSetter says it assigned 45% of Mr L's income to credit commitments and the rest to his normal living costs.

I've thought about RateSetter's checks and the particular circumstances here and I don't think it did enough before agreeing the loan. I say this because Mr L declared he was self employed and by the very nature of his self-employment there ought to have been reasons for further verification of his circumstances, especially when you consider the level of the monthly repayment – Mr L would be paying around £460 a month. I don't think in the circumstances the electronic verification of Mr L's income was sufficient. I think in addition to verifying his income beyond what it did, RateSetter should also have been looking to understand Mr L's outgoings in the circumstances, along with the true purpose for the loan as according to Mr L's credit report he didn't have £10,000 in debt to consolidate. Mr L declared he was a tenant, and he lived in a relatively expensive area in terms of rental properties, but it doesn't seem Ratesetter sought to confirm exactly what Mr L's housing costs were. Putting everything together, overall I don't think RateSetter did enough before agreeing to lend.

I have therefore considered what the results of these better checks would have been and how they ought to have affected RateSetter's lending decision.

To understand Mr L's circumstances around the time of this loan, I've reviewed his bank statements. In the absence of further checks by RateSetter, I think it's fair in the circumstances to rely on Mr L's actual circumstances at the time. From what I can see, Mr L didn't receive an income of £2,150 from self-employment at the time. I can see he received an average of around £1,456 a month (based on his bank statements covering the period from 9 October 2021 to 8 January 2022) and I can't see any other income into his account in the three months before this loan was granted. The remainder of the credits were small amounts from third parties, plus transfers in from another of Mr L's accounts.

In terms of Mr L's outgoings, there were regular payments for transport totalling over £200 in a month, payments to HMRC of £400 a month, plus other expenditure including large payments to online trading companies which averaged £1,640 a month over the three months that I have seen. Overall, even without taking into account this new monthly commitment of £459.21, Mr L's outgoings outweighed any external income he was receiving.

In Mr L's circumstances, he wasn't in a position to afford the loan and I don't think it was responsible to lend to him. I think further checks were needed by RateSetter here and those further checks would likely have shown Mr L couldn't afford the loan and that he was engaging in online trading, spending - on average - more than his monthly salary on those.

RateSetter in my view has lent when it shouldn't have, and it needs to put things right.'

I then set out what I felt Ratesetter needed to do to put things right.

Ratesetter confirmed it had nothing further to add. Mr L responded across a few emails explaining the impact this lending had on him, and requesting compensation be paid to reflect the emotional and financial impact.

I've considered all the available evidence and arguments to decide what's fair and reasonable

in the circumstances of this complaint.

Mr L has said, in response to my provisional findings, that he would like compensation for the impact the loan has had on his financial and mental wellbeing. I've carefully considered everything Mr L has said but I'm not persuaded to change the redress I was provisionally minded to award. If Mr L borrowed further funds elsewhere after taking out this loan, then those are separate complaints he can make to the lenders involved (if he's not already done so). In terms of separate compensation for the impact on Mr L's mental wellbeing, I must take into account that my award is already writing off all the interest charged on this loan meaning Mr L has had the £10,000 interest free, something he could never have had, and I'm satisfied, overall, that represents fair compensation for this complaint.

Putting things right

To put things right for Mr L I direct RateSetter to do the following:

- Remove all interest, fees and charges added to Mr L's loan.
- Treat all payments made by Mr L as payments towards the capital of £10,000, if this results in Mr L paying more than the capital then RateSetter should add interest of 8% simple a year on any surplus from the date they were paid (if they were) to the date of settlement† and refund this to Mr L.
- If after the account has been reworked Mr L still has a balance outstanding RateSetter should work with Mr L to agree a suitable repayment plan.
- Remove any negative information about the loan from Mr L's credit file once it has been repaid.

*HM Revenue & Customs requires RateSetter to deduct tax from this interest. It should give Mr L a certificate showing how much tax it's deducted, if he asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct Metro Bank PLC trading as Ratesetter to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 31 March 2025.

Julia Meadows
Ombudsman