The complaint

Mr F, through a representative, says Metro Bank PLC, trading as RateSetter, irresponsibly lent to him.

What happened

RateSetter provided Mr F with a loan for £14,500 in August 2022. It had an APR of 5.94% and a 48-month term. The monthly repayments were £339.10 and the total repayable was £16,276.80. Mr F told RateSetter the loan was to consolidate his existing debts.

One of our investigators reviewed what Mr F and RateSetter had told us. And he thought that RateSetter hadn't lent irresponsibly. So he didn't uphold Mr F's complaint.

Mr F disagreed and asked for an ombudsman to look at his complaint.

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.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr F's complaint.

Having carefully considered everything, I'm not upholding Mr F's complaint. I'll explain why.

RateSetter needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, what this means is that RateSetter needed to carry out proportionate checks to be able to understand whether Mr F could afford to make his repayments before providing this loan.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to provide loans to a customer irresponsibly.

RateSetter says it approved Mr F's application after he provided details of his monthly income (£3,160.73) and it verified this externally. It made assumptions about his expenditure based on ratios set as part of its lending policy (55% of income). It carried out a credit search to understand his existing commitments.

RateSetter's view of all of the information it gathered was that Mr F could afford to make the repayments he was committing to as he would have £1,052.23 disposable income remaining each month. On the other hand, Mr F has said RateSetter failed to undertake a reasonable assessment of his creditworthiness and ability to sustainably repay the loan.

I've carefully thought about what Mr F and RateSetter have said.

As RateSetter asked Mr F about his income, estimated his expenditure and also carried out a credit check, it's clear that RateSetter did obtain a reasonable amount of information before it decided to proceed with Mr F's application. Having looked at the credit check, it's clear Mr F had some existing debts but all his active accounts were up-to-date. His credit utilisation on his credit cards was low and he was not using his overdraft facility. He had not used payday loans since 2018. He had no significant adverse information on his file.

And, while I accept that Mr F might not agree with this, I don't think that his level of debt (£14,323) was excessive given his income. But more critically, the information from the time shows that Mr F's selected loan purpose was debt consolidation.

RateSetter won't have known whether Mr F would actually pay off his existing balances – all it could do was take reasonable steps and rely on assurances from Mr F that this would be done with the funds from this loan. So I'm satisfied that the proceeds of this loan could and should have been used to clear all of the existing debt that Mr F had, rather than add to it. As this was a first loan RateSetter was providing to Mr F, there wasn't a history of Mr F obtaining funds and then failing to consolidate debts elsewhere in the way he committed to either. So RateSetter was reasonably entitled to believe that Mr F would be left in a better position after being provided with this loan; it would reduce his monthly credit commitments and had a low interest rate.

There is an argument to say that, at the absolute most, RateSetter ought to have found out more about Mr F's actual regular living expenses, rather than relying on internal data and ratios, bearing in mind the monthly payment and the term of this loan.

Where a firm failed to carry out reasonable and proportionate checks before providing credit to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information provided to get an idea of what RateSetter is likely to have learned if it had found out more about Mr F's actual regular living expenses. In particular, I've looked at Mr F's current account statements for the three months leading up to the loan application.

In doing so, I've noted that Mr F's average monthly income was actually higher than the figure RateSetter based its affordability assessment on at £4,066 but I accept it may have varied through the year given the nature of his employment. And the statements provided do appear to show that when Mr F's regular living costs and monthly expenditure are deducted from what he received, Mr F does appear to have enough in funds left over to make the repayments needed for this loan. This is particularly the case when the payments to the debts which should have been consolidated are removed from Mr F's expenditure as they should be.

As this is the case, I don't think that RateSetter did anything wrong when providing this loan to Mr F - it is arguable that it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

But even if RateSetter had asked Mr F for more information about his regular living costs and contractually committed expenditure here this wouldn't have made a difference to its decision to lend. In my view, this would simply have reinforced the notion that if Mr F did go on to repay his existing debts with the proceeds from this loan as his recorded loan purpose said he would, he would have been in a better financial position.

So overall and having considered everything, I’m satisfied that RateSetter didn’t treat Mr F unfairly or unreasonably when lending to him.

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 RateSetter lent irresponsibly to Mr F or otherwise treated him 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 Mr F’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr F to accept or reject my decision before 16 April 2025.

Rebecca Connelley
Ombudsman