DRN-5472919

The complaint

Mrs D complains that Metro Bank PLC trading as RateSetter ("RateSetter") lent to her in an irresponsible manner.

What happened

Mrs D was given a loan by RateSetter in February 2022. Mrs D borrowed £5,000 that she agreed to repay in 60 monthly instalments of £98.36. Mrs D has maintained her contractual payments to date.

Mrs D's complaint has been assessed by one of our investigators. He didn't think the checks RateSetter did before agreeing the loan were sufficient. But he thought that better checks would have still reasonably led the lender to conclude that the loan was affordable for Mrs D. So the investigator didn't think the complaint should be upheld.

Mrs D didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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 set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mrs D's complaint.

The rules and regulations at the time RateSetter gave this loan to Mrs D 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 assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so RateSetter had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mrs D. In practice this meant that RateSetter had to ensure that making the repayments wouldn't cause Mrs D undue difficulty or adverse consequences. In other words, it wasn't enough for RateSetter to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mrs D.

Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes 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 / cost of credit they are seeking.

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 RateSetter did what it needed to before agreeing to lend to Mrs D.

RateSetter gathered some information from Mrs D before it agreed the loan. It asked her for details of her income and verified this through open banking access to her bank statements. It then used a statistical formula to estimate how much of her income Mrs D would spend on credit commitments, and on other living expenses such as housing costs and other regular expenditure. RateSetter also checked Mrs D's credit file to see how much she owed on credit, and how she had managed credit in the past. RateSetter says it was satisfied that the loan repayments would be affordable for Mrs D.

Mrs D was entering into a significant commitment with RateSetter. She would need to make monthly repayments for a period of five years. So I would expect that RateSetter would want to gather, and independently check, some detailed information about Mrs D's financial circumstances before it agreed to lend to her. Whilst I think it had sufficient information available I don't think that the checks I've described above were enough. I think it would have been proportionate for RateSetter to independently check the information on Mrs D's bank statements before agreeing the loan.

But although I don't think the checks RateSetter did before agreeing the loan were sufficient, that in itself doesn't mean that Mrs D's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown RateSetter that Mrs D couldn't sustainably afford the repayments. So I've looked at Mrs D's bank statements, and what she's told us about her financial situation, to see what better checks would have shown RateSetter.

I've carefully considered the information shown on Mrs D's bank statements around the time that she borrowed from RateSetter. I can see that the income she declared was broadly correct. But Mrs D also received regular monthly payments from her husband, for what appears to be a contribution to the mortgage expenses she was paying. So RateSetter would have seen that Mrs D had a higher income than she had declared.

Taking that additional income into account, I think that Mrs D's bank statements suggest the loan would have been affordable for her. The credit check, and the information on her bank statements, don't show any indications of financial difficulties. Mrs D was making any contractual repayments that were required on time. She had no other unsecured loans. And her credit card balances were significantly below the credits limits she had been given. So I think that, even if it had looked at Mrs D's finances in far more detail, it would have been reasonable for RateSetter to conclude that the loan would be sustainably affordable for Mrs D.

I can see that Mrs D says she is now facing problems repaying this loan and other borrowing. But that in itself doesn't suggest that RateSetter shouldn't have given it to her. Circumstances that might be apparent at the time a lending decision is made, might alter over the course of such a lengthy repayment period. But unless those changes were reasonably foreseeable I don't think that means a lender should expect the changes and factor them into any lending decision. But I would remind RateSetter that it should treat Mrs D positively and sympathetically if she approaches the firm about any repayment difficulties.

For completeness I've also considered whether RateSetter acted unfairly or unreasonably in some other way given what Mrs D has complained about, including whether its relationship with her might have been viewed as unfair by a court under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think RateSetter lent irresponsibly to Mrs D or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to suggest that s.140A would, given the facts of this complaint, lead to a different outcome here.

I appreciate how disappointing my decision will be for Mrs D. But, in summary, although I don't think the checks RateSetter did before agreeing this loan were proportionate, I don't think better checks should have led to the loan request being declined. So I don't think this complaint should be upheld.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Metro Bank PLC trading as RateSetter

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 9 May 2025.

Paul Reilly
Ombudsman