

The complaint

Mr F's complaint is about a second charge mortgage he has with Tandem Home Loans Ltd. He thinks the decision to lend to him was irresponsible as he doesn't think proportionate checks were done and the mortgage was unaffordable.

Mr F is represented in his complaint, but for ease, I will refer to all comments and submissions as his.

What happened

In the spring of 2019 Mr F took out his second charge mortgage. The mortgage was for just over £16,800 (including fees) over 15 years on a repayment basis. The interest rate was fixed for the first five years at 15% per annum and would be charged at a variable rate thereafter. The monthly payment during the fixed interest period was £267.83.

The application form said that Mr F wanted to consolidate two credit card balances totalling just over £4,200 and have some money for home improvements. At the time Mr F had a first charge mortgage of around £98,000, which had been taken out approximately six months earlier. In addition, he had a hire purchase agreement in place, which was costing him just over £83 per month.

Tandem obtained evidence of Mr F's income and accessed his credit report. These showed nothing that indicated that he was struggling with his existing credit commitments – no late or missed payments, CCJs or defaults.

Tandem asked Mr F for his most recent bank statement and completed an income and expenditure exercise. When it did this it appears to have used some modelled expenditure information – typical expenditure for a household of the type Mr F had – for some living expenses. However, the actual mounts for Mr F's credit commitments and some of his expenses were used. This exercise determined that Mr F had a disposable income of approximately £121.02 each month after all expenses including the prospective Tandem mortgage was taken into account. However, after reassessing the situation assuming an increase in mortgage interest rates on Mr F's first charge mortgage, known as stress testing, Tandem determined that Mr F would not have enough income to cover his expenditure – showing a deficit of £47.18. The assessment stated '*refer to office*'.

Tandem then completed a second affordability test. When doing so it reduced two of Mr F's outgoings. The first of them was the cost of 'TV licence/Sky/Cable' from £35 to £12.87 per month – the monthly cost of a television licence. The bank statement that Tandem had showed that Mr F had a direct debit to Sky for £35 per month and that it was the first payment under the direct debit. In addition, Tandem decided that Mr F could reduce the amount he paid for his mobile phone from £68.62 per month (which was evidenced on the bank statement Tandem had) to £25 per month. There is no evidence that either of these reductions were discussed with Mr F or that he agreed to reduce the outgoings.

When the reduced outgoings were factored in the income and expenditure exercise, it showed that Mr F had a disposable income of £186.77 and, once stress testing was applied

for the first charge mortgage, he would have £18.57 left each month. However, despite the assessment showing that Mr F would be able to pay the amounts detailed, it was still flagged as 'refer to office'. Tandem documented that it accepted Mr F's application as:

'Mortgage is paid well

The loan is affordable for the customer – extra income from Customers wife who is not on application.'

Mr F made the payments to the mortgage consistently until 2022, when he started experiencing difficulties making payments. Mr F complained to Tandem in July 2024 about the mortgage having been lend irresponsibly.

Tandem responded to the complaint in a letter of 19 July 2024. It set out its process for determining whether it was willing to lend, and it confirmed that its assessment of Mr F's income and expenditure had shown the mortgage would be affordable. In addition, it highlighted that there were no issues with Mr F's credit file that raised any concerns. As such, Tandem was satisfied it hadn't lent irresponsibly.

Mr F wasn't satisfied with Tandem's response and referred his complaint to this Service. One of our Investigators considered the complaint and recommended that it be upheld. He concluded that Tandem had not carried out adequate checks about the affordability of the mortgage. This was due to Tandem not having completed appropriate stress testing and the alterations to Mr F's expenditure that were made to show affordability. He concluded that the mortgage was unaffordable.

Tandem did not accept the Investigator's conclusions. It highlighted that it was not required by the regulator to obtain information about a customer's expenditure and could rely on what it is told unless there are common sense grounds for doubting it. Tandem said that there was nothing in the information Mr F gave it that caused enough concern for it to ask for more supporting information in the form of additional bank statements. It also said that it had not been told that Mr F would be contributing to bills in Mrs F's name. Tandem also said that it was not required to stress test the first charge mortgage. It asked that the complaint be referred to an Ombudsman for review.

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.

At the time of the lending decision, secured loan applications like this one were (and still are) covered by the rules of mortgage regulation, found in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) section of the Financial Conduct Authority's Handbook.

The rules require a lender to assess affordability and not lend unless a mortgage is affordable. In making the assessment, a lender must obtain evidence of income, and information about expenditure. It can assess expenditure based either on a borrower's actual declared expenses, or it can use modelled expenditure information – such as typical expenditure figures for a household of a particular type – for living expenses. However, the lender must always use actual figures for committed expenditure such as other credit agreements.

I have noted what Tandem has said about why it doesn't think that it had reason to complete any further checks to ensure that the new mortgage was affordable. It is correct that it is entitled to rely on what it's told about expenditure – unless, taking a common-sense view, it

has reason to doubt it. In addition, there had not been any defaults, late payments or CCJs on Mr F's credit file. So on the face of it, I can see the point that Tandem is making. However, there should be more to a lender's assessment than a simple tick box exercise regarding defaults, CCJs, or calculating what percentage of a consumer's income the credit represents.

Given the information Tandem did have, I think that it had cause to ask additional questions and for more evidence. The bank statement it had showed no payments for the utilities that Mr F said he paid. That was potentially a cause for concern. In addition, it showed a significant sum of £1,000 being transferred out of the bank account, which was not factored into the expenditure information Mr F had given it. I think reasonably that Tandem should have at least asked what that payment was, and it should have requested more bank statements, especially in light of the fact that the initial affordability assessment showed the mortgage was unaffordable.

However, more importantly, the information Tandem did have showed that the mortgage was not affordable for Mr F. While a second income and expenditure exercise was done, which changed the deficit after stress testing to a very small surplus, I do not consider that the changes made were justified. Tandem reduced the costs for Mr F's mobile phone and his televisual services.

These costs were clearly documented on the bank statement Tandem had as Mr F's actual costs. While there may be situations where costs can be reduced to improve affordability, a conversation with the consumer would need to be had before that should be done. The consumer would need to agree to the reduction and Tandem would need to be satisfied that it was possible – for example if payments were being made under a contract, they would not usually be able to be changed. Tandem has provided no evidence of such a conversation having taken place or Mr F agreeing to reduce his outgoings.

Furthermore, in the case of the Sky payment, the bank statement showed it was the first payment under the direct debit, which when combined with the fact that Mr F had only moved into his home a few months earlier, should have indicated that he was at the beginning of his contract with Sky. So Tandem should have known that he would have been unable to change that payment. In addition, as there was no payment detailed on the bank statement for the basic television licence, I think Tandem should have known that the amount it had recorded on the original expenditure exercise was lower than it should have been.

I also note that Tandem effectively relied on Mrs F's income to plug any gaps in Mr F's affordability. Mrs F was not a party to the mortgage and so had no liability for the payments. In addition, Tandem had no evidence about her income or outgoings, and so could not know if its assumption was correct that she could have helped with the costs. I don't consider that Tandem should reasonably have taken any assumed income from Mrs F into account when it made its decision to lend.

As such, I am not persuaded that Tandem carried out a sufficiently robust affordability assessment, or that the mortgage was affordable, based on the information Tandem had in 2019.

Putting things right

When considering redress we aim to place a consumer in as close as possible to the financial position they would have been in, had the financial business not made a mistake. In this case, that would have been that the existing credit cards would have remained in place, Mr F would not have received the additional money he wanted for home improvements, and

he would have had to look at alternative options. Given this, I am satisfied that Mr F should be required to repay the capital sum he borrowed.

To put matters right, I consider that Tandem should:

- recalculate the mortgage balance removing all fees (including the lending and broker fees), charges and interest, and treating all payments made to date and in the future, as repayments of the capital;
- agree a suitable repayment plan with Mr F; and
- remove any adverse information about the mortgage from Mr F's credit file.

The charge that Tandem holds on Mr F's property should remain in place until the recalculated balance of the mortgage has been repaid.

My final decision

My final decision is that I uphold this complaint. In full and final settlement of this complaint I require Tandem Home Loans Ltd to carry out the actions I have detailed above in 'Putting things right'.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr F to accept or reject my decision before 18 August 2025.

Derry Baxter
Ombudsman