

The complaint

Miss M complains that Santander UK Plc was irresponsible in its lending to her. She wants all interest and charges on her loan refunded along with statutory interest and any adverse information removed from her credit file.

What happened

Miss M was provided with a £13,000 loan by Santander in March 2023. The loan term was 36 months and Miss M was required to make monthly repayments of £466.32.

Miss M says that Santander didn't carry out adequate checks before the loan was provided. She says that she was in a cycle of debt, taking out new loans to repay existing commitments. She says the loan was unaffordable and she has missed payments and needed to enter a debt management plan. She explained that this loan has caused her a lot of worry and stress.

Santander issued a final response dated 5 September 2024. It said that before lending it carried out a full credit check and considered the affordability of the loan using data Miss M had provided along with data from the credit reference agencies and third parties. It said that the loan was intended for debt consolidation and that its checks supported it being affordable for Miss M.

Miss M referred her complaint to this service.

Our investigator didn't think that the checks carried out by Santander were adequate and said that it should have verified Miss M's income and expenditure before lending. She found that had this happened, Santander would have found the loan to not be sustainably affordable for Miss M.

Santander didn't agree with our investigator's view. It reiterated that the loan was for debt consolidation and said the evidence showed that it was used for this. Santander said that the data on Miss M's credit file was factored into its assessment and that she met its risk criteria without further checks being needed. It said its affordability calculations suggested that Miss M would be able to manage the repayments and noted that she did so until she was made redundant. It said the issues with Miss M's loan arose due to a change in her circumstances after the lending had been provided.

Our investigator responded to Santander's comments but as these didn't change her view, and a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue a decision.

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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Miss M was provided with a £13,000 loan by Santander. The loan was repayable over 36 months with monthly repayment of around £466. Miss M said the purpose of the loan was debt consolidation and I think it reasonable that Santander would take this into account in its assessment. That said, this was a large loan, and the monthly repayments would take a significant portion of Miss M's declared income and I think Santander's checks needed to reflect this.

Santander has explained that before the loan was provided it gathered information about Miss M's income and expenses and carried out affordability checks based on the declared amounts. It also used third party data and information from the credit reference agencies to estimate Miss M's outgoings and compared these to her declared income. Miss M's declared income was £2,800, her declared outgoings were £1,450 and her estimated outgoings (including the repayments to the Santander loan) were £2,430. A credit check was undertaken which identified Miss M as having £21,100 of unsecured debt.

I haven't seen details from the credit checks but having looked at Miss M's credit file this showed she had an occasional missed payment but was generally managing her accounts. I note that Santander said the credit file data was taken into account in its assessment.

Miss M's credit report showed she had taken out a £5,000 loan from another finance provider in January 2023. Given the size of the loan and the monthly repayments, that Miss M already had a reasonably high amount of unsecured debt (which wouldn't be completely cleared by the new loan), had recently taken out other additional credit and that she had missed payments in the preceding months, I think that Santander should have verified Miss M's income and expenses to ensure the new loan would be sustainably affordable for her.

Santander wasn't required to obtain copies of Miss M's bank statements but as I think further verification should have happened, I have used the information these contain, along with the other information provided, to assess what I think would have been identified had further checks taken place.

Miss M bank statements for the months leading up to the Santander loan show her average income to be above the amount she declared, at around £3,163. Her expenses included repayments for her existing credit commitments, insurance, car costs, communications contracts and her general living costs (such as food and fuel). She also made a £1,000 transfer each month to her joint account to cover costs such as rent, utilities and council tax.

As Miss M had said the Santander loan was for debt consolidation, and I can see that she repaid a £5,000 loan and made other repayments from the loan proceeds, I haven't included the repaid debts in the calculation for existing credit commitments. Taking this all into account resulted in Miss M's monthly costs being around £3,000. Deducting this from her average income wouldn't leave sufficient funds to make the Santander loan repayments. Therefore, I think that had proportionate checks been carried out, Santander would have realised that the loan may not be sustainably affordable for Miss M. Because of this I am upholding this complaint.

I've also considered whether Santander acted unfairly or unreasonably in some other way given what Miss M has complained about, including whether its relationship with Miss M might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Miss M in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

As I don't think Santander ought to have provided the loan, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Miss M should pay back the amounts she has borrowed. If the loan has been sold, then Santander should buy the debt back and then take the actions set out below. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

In resolution of this complaint, Santander should:

Add up the total amount of money Miss M received as a result of having been given the loan. The repayments Miss M made should be deducted from this amount.

- a) If this results in Miss M having paid more than she received, any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement). Santander should also remove all adverse information regarding this account from Miss M's credit file.
- b) If any capital balance remains outstanding, then Santander should arrange an affordable and suitable payment plan with Miss M. Once Miss M has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Santander to take off tax from this interest. Santander must give Miss M a certificate showing how much tax they've taken off if she asks for one.

My final decision

My final decision is that Santander UK Plc should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 7 July 2025.

Jane Archer
Ombudsman