

## **The complaint**

Miss R complains Metro Bank PLC trading as RateSetter (RateSetter) approved her for a personal loan irresponsibly, without completing adequate affordability checks.

## **What happened**

In October 2019, Miss R took out a personal loan with RateSetter. She borrowed £20,000, and the agreement required her to make 60 monthly repayments of £429.11.

In February 2025, Miss R complained to RateSetter about their decision to approve her for the loan as it had led to her experiencing financial difficulties. Miss R said RateSetter should have completed further checks prior to making their lending decision.

That same month, RateSetter sent Miss R their final response, but they didn't uphold her complaint. In summary, RateSetter said they verified Miss R's declared income electronically and her affordability to repay the loan was assessed by an underwriter before being approved.

Miss R disagreed with RateSetter's response, so she referred her complaint to our service.

One of our Investigators looked into things and said due to the discrepancies in the information provided by Miss R and that which RateSetter saw provided by the Credit Reference Agencies (CRAs), she thought they should've undertaken further checks to verify both the affordability and sustainability of the loan before making their decision to lend.

Our Investigator went on to say had RateSetter completed further checks, they ought to have seen both that the loan being applied for looked unaffordable, and that Miss R appeared to have been caught in a cycle of debt, having only taken on new credit just prior to this application. As such, our Investigator upheld the complaint, saying she didn't believe RateSetter's decision to lend to Miss R was a responsible one.

Miss R accepted our Investigator's opinion, but RateSetter disagreed. They said Miss R had declared the loan being applied for was to consolidate existing loan debts totalling £16,700. They said the lending taken out prior to the application being complained about was included in that debt consolidation and if Miss R's existing loans were repaid, she would've had a surplus of disposable income even after affording the new loan repayment.

RateSetter said the loan was affordable for Miss R, noting the repayments were maintained until the loan was settled.

Our Investigator looked into things again, but her view remained unchanged. She said in her opinion, Miss R was caught in a clear and escalating cycle of debt, having taken out £16,000 of borrowing over two loans in the two months prior to this application.

Our Investigator said this showed Miss R was heavily reliant on ongoing access to credit, simply to maintain her existing borrowing. And, as such, our Investigator said simply taking out a new loan to repay previous loans, wasn't a sustainable way to manage finances.

Because RateSetter remained dissatisfied with our Investigator's opinion and no resolution could be reached, this case has been passed to me to decide.

### **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.

Having done so, although I appreciate it'll be a disappointment to RateSetter, I'm upholding this complaint and for much the same reasons as our Investigator. I'll explain why.

But first, I'm aware I've summarised this complaint in less detail in parts than has been provided, and I've done so using my own words. No discourtesy is intended by this. Instead, I've concentrated on what I think are the key issues here. Our rules allow me to do this.

This reflects the nature of our service as an informal alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it. I haven't.

I'm satisfied I don't need to comment on every detail to be able to reach what I think is the right outcome reasonable in the circumstances of this complaint. Instead, I've focused on what I think is the crux of my reasoning for reaching the outcome I have.

How we handle complaints about irresponsible and unaffordable lending is explained on our website. It's this approach I've used when deciding Miss R's complaint. RateSetter needed to ensure that they didn't lend irresponsibly, which in practice means they needed to carry out proportionate checks to be able to understand whether any lending was both affordable for her and sustainable before agreeing to provide the loan.

The rules that apply to credit agreements are set out in the FCA's consumer credit sourcebook (CONC). Section 5.2A of CONC is relevant here, as – among other things – it talks about the need for businesses like RateSetter to complete reasonable and proportionate creditworthiness assessments before agreeing to lend someone money.

I've considered these rules by asking the following questions:

- Did RateSetter complete reasonable and proportionate checks to satisfy themselves Miss R would be able to meet the repayments of the borrowing without experiencing significant adverse impact on her financial situation?
  - If they did, was their decision to lend to Miss R fair?
  - If they didn't, would reasonable and proportionate checks have shown that Miss R could sustainably repay the borrowing?
- Did RateSetter act unfairly or unreasonably in any other way?

### Did RateSetter complete reasonable and proportionate affordability checks?

What's considered reasonable and proportionate in terms of the checks a business undertakes will vary dependant on the details of the borrowing and the consumer's specific circumstances at the time.

Here, the total amount repayable under the agreement was around £25,746, with Miss R

committing to make a monthly repayment of around £429 over a term of 60 months. This was, therefore, a lengthy credit commitment for someone to enter into repaying a significant amount back each month, so my starting point is that I'd expect to see RateSetter to have completed a thorough check into Miss R's financial circumstances.

Miss R declared her gross annual income as being £40,000 which RateSetter say they verified electronically as being £2,561.32 net each month. Miss R also declared she was a tenant paying £995 towards rent each month, had no partner or dependants and that her existing debt consisted of personal loans with balances totalling £16,740 to which she was repaying £439 a month.

RateSetter then completed a credit file check from which they could see Miss R had eight active credit accounts which included two current accounts, two loans, three credit cards and a telecommunications account.

Aside from some previous signs of late payments on the telecommunications account, RateSetter could see that Miss R looked to be managing her existing credit well. Miss R had balances across her three credit cards totalling around £545 at the time, utilising around 5% of her £10,700 available credit limits. RateSetter could also see Miss R had a total balance of £2,330 across her two loans.

RateSetter also say Miss R's application was reviewed by their credit team and approved following a review by an underwriter.

Having considered all the circumstances here, including that Miss R's application was manually reviewed by an underwriter, I'm not satisfied the checks RateSetter completed were proportionate on this occasion. I'll explain why.

Miss R declared she was applying for a loan of £20,000 for debt consolidation listing her outstanding liabilities as being £16,740 owed to personal loans. She listed her commitment towards that debt as being £439 a month.

But as I've explained, from the CRA data RateSetter obtained, they could see Miss R owed a total of £2,875 across two loans and two credit cards, £2,000 of which was owed towards a loan taken out only six weeks prior.

I think this ought to have given RateSetter cause for concern that Miss R was susceptible to taking out credit. And there was no clear outstanding debt RateSetter could see which she was going to be consolidating with the £20,000 she was looking to take out.

Because of both the above, and the discrepancies between Miss R's declared outstanding debt and that seen on the CRA data, I think RateSetter ought to have taken steps to better understand Miss R's financial situation and in detail the purpose of her applying for the loan. It follows, for the reasons I've explained, I can't say RateSetter's checks were proportionate.

But as I've explained above, that doesn't necessarily mean I can uphold Miss R's complaint – I now need to consider whether RateSetter would've likely been able to fairly decide to lend to her if they had done proportionate checks.

#### If RateSetter had done proportionate checks, what would they have found?

While I understand our Investigator placed focus on Miss R's expenditure in part when reaching her opinion, I think had RateSetter done more to gain an understanding of her

outgoings, they would've more likely than not found the loan to have been affordable.

But I don't consider the affordability of the loan for Miss R to be the crux of why I've reached my decision here. Instead, I think this is a matter of whether RateSetter's decision to lend to her was a responsible one. I don't think it was. So, it's this I'll focus on when explaining my reasoning here.

RateSetter were already aware that Miss R had taken out a loan of £2,000 only six weeks prior to the application in question here. They were also aware from the CRA data, Miss R had appeared to repay an unsecured loan for around £6,200 in full only two months prior.

I've already said I think they should have done more, especially seeing as the application was manually reviewed, to have understood the discrepancy between what Miss R said she had as outstanding debt and what the CRA data showed.

I think had RateSetter asked Miss R, it's more likely than not she would have told them she had taken out a further loan for £14,000 around two months prior.

Despite Miss R having stated her reason for taking out the loan was for debt consolidation purposes, knowing she'd only just borrowed a total of £16,000, I think it ought to have been clear to RateSetter she was caught in a cycle of debt.

Miss R was borrowing to repay existing debt she'd only just taken out, while at the same time increasing her overall indebtedness by borrowing additional money. This isn't behaviour indicative of someone in control of their finances and as such I think RateSetter's decision to agree the loan wasn't a responsible one.

In summary, while Miss R's application was manually reviewed by RateSetter, I don't think that review went far enough to understand Miss R's financial circumstances at the time. And I think had it done, RateSetter ought to have realised it was irresponsible to expose her to further finance. Because of this, I uphold this complaint.

#### Did RateSetter act unfairly or unreasonably in some other way?

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974 (Section 140A). However, I'm satisfied the redress I've directed below results in fair compensation for Miss R in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case. here

#### **Putting things right**

As I don't think RateSetter should've lent to Miss R, it's not fair for her to pay any interest or charges under the agreement. But Miss R has had use of the funds so it's fair she pays the capital she borrowed.

To put things right, RateSetter should:

- refund any overpayments Miss R paid towards the agreement, in excess of the £20,000 she borrowed. RateSetter should add 8% simple interest per year from the date of each overpayment to the date of settlement; and
- remove any adverse markers from her credit file, if any, regarding the agreement.

If RateSetter consider tax should be deducted from the interest element of my award they should provide Miss R a certificate showing how much they've taken off so that Miss R can reclaim that amount, assuming she is eligible to do so.

### **My final decision**

My final decision is that I uphold Miss R's complaint and instruct Metro Bank PLC trading as RateSetter to settle the complaint as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 28 October 2025.

Sean Pyke-Milne  
**Ombudsman**