

The complaint

Mr M says that a secured (third charge) loan he took out in 2020 with Tandem Home Loans Ltd (previously 1st Stop Home Loans Limited) was unaffordable and irresponsibly lent.

Mr M has been represented in bringing this complaint. For ease I will only refer to Mr M in this decision, but that should be taken to mean the representative acting on his behalf where appropriate.

What happened

Mr M had bought the property in December 2017 for £179,995 and the desktop valuation carried out for this application gave an estimated value of £200,000 in February 2020. Mr M took a mortgage out to purchase the property, and he remained with the same lender up to the date of this application I am considering.

In September 2019 Mr M secured a second charge against the property with another lender.

Mr M then applied for this loan in 2020 through an independent mortgage broker. The offer issued on 14 February 2020 shows Mr M was borrowing £25,000 (plus £3,935 fees) over a 15-year term on a repayment basis. The interest rate was fixed for the first five years at 11.50%, and thereafter it would move to the standard variable rate (which was also 11.50% at the time of the offer). That gave a monthly payment of £338.07.

The loan completed on 18 February 2020 and when all the loans against the property were added up, Mr M's total loan to value was 103%; that is, he had more debt secured against the property than the property was worth.

Mr M complained to Tandem about the loan in May 2024. Tandem issued a complaint response letter to Mr M later that month. It said responsibility for the suitability of the advice and ensuring Mr M understood the product sat with the broker. It said it had evidenced Mr M's income by way of payslips, and that once his declared expenditure was taken into account there was a monthly surplus of £595 (£337 after the stress test), so it said the loan was affordable. It said Mr M's credit report showed his financial position was stable, and the loan was affordable and sustainable.

Mr M referred the complaint to the Financial Ombudsman Service where it was looked at by one of our Investigators. Our Investigator said she didn't think the lending had been responsible as she said (amongst others), taking a common-sense view, Tandem should have asked for Mr M's bank statements which would have shown much higher expenditure.

Mr M accepted our Investigator's assessment. Tandem didn't agree and so it was 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.

Whilst Mr M's representative made reference to CONC, that isn't the correct sourcebook for this loan as that relates to Consumer Credit borrowings. This is a regulated mortgage contract, so it is the provisions in MCOB (the Mortgage and Home Finance: Conduct of Business sourcebook) that are relevant to my considerations, not CONC.

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 MCOB section of the Financial Conduct Authority's Handbook.

The rules require a lender to assess affordability and not lend unless a loan 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 this type – for living expenses but must always use actual figures for committed expenditure such as other credit agreements.

The rules also say that a lender is entitled to rely on what it's told about expenditure – unless, taking a common-sense view, it has reason to doubt it.

Tandem has told us that Mr M had taken a second charge loan with a different provider in September 2019 to consolidate debts and had then taken a further unsecured loan out in December 2019.

But in addition to that I can see the hire purchase agreement (that was to continue to run) was taken out in November 2019. And a credit card that appears was consolidated by the September 2019 second charge had the balance increased back up to nearly £3,700 by November 2019, only to appear to be consolidated again by the December 2019 unsecured loan. The payments made to the credit card were £5,380 in September 2019 and £4,954 in December 2019. The overdraft follows the same pattern, with £1,850 being cleared in September 2019 and then building back up to £1,959 in November 2019 which was cleared in December 2019. The overdraft was back up to £1,300 in January 2020 (all of this against a £2,000 overdraft limit). In addition, Mr M had taken out a credit card with a £2,000 credit limit in December 2019, although no balance was showing on that at the time the credit report was obtained by Tandem that could simply have been due to a crossover in reporting.

Although Tandem has said the December 2019 unsecured loan was for home improvements, Mr M's credit file indicates around £9,900 of credit was repaid in December 2019 / January 2020 (£1,960 overdraft, £4,960 credit card and £2,980 credit card) which accounts for most of the loan (which showed a balance of £13,760 on Mr M's credit file). On balance it is more likely than not that the December 2019 unsecured loan was also mainly taken for debt consolidation purposes.

Mr M's credit report showed a recent history of taking out unsecured debts and then consolidating them. And in the case of revolving credit (that is credit cards and overdrafts) the debts being built up again after being consolidated. In addition he had recently missed a payment to his first charge mortgage. Whilst Mr M told Tandem about some personal issues with his son, I do think everything put together should have given Tandem cause for concern such that it should have taken a more detailed look at Mr M's circumstances.

In addition, even using Tandem's figures, there was a significantly lower surplus (after the stress test) than it worked out. That's because it seems it carried out the stress test at 3% over the preferential interest rate on the first charge mortgage, not at 3% over the reversionary rate which is what it should have done. Using a rough calculation, had the stress test been carried out at 3% over the reversionary rate, then the surplus (after the

stress test) would have been reduced to around £50, rather than around £340 as shown on the affordability assessment.

The Financial Policy Committee (“FPC”) set its stress test of 3% in its meeting of 21 June 2017. Its record of that meeting set out why it considered that 3% was an appropriate figure – it also explained why lenders should apply the stress test to the reversionary rather than the rate at origination. The FPC’s final meeting before the mortgage was granted was in December 2019. It said the recommendation it made in June 2017 still applied.

The 2017 recommendation said that “highly-indebted households were more vulnerable in the event of unexpected falls in their incomes or increases in their mortgage repayments. In an economic downturn, there was a greater risk that such borrowers might need to cut spending sharply, making recessions deeper. This also increased the risk of losses to lenders, not just on mortgages, but on other lending, too”. It set out in detail why a stress test of 3% on the reversionary rate, along with other measures, was appropriate to protect against those risks. I simply mention this point about the stress test for completeness as I’m already satisfied (without this point) that Tandem should have taken a more detailed look at Mr M’s circumstances.

I’ve taken into account what Tandem has said, and the information it received at the time, as well as what the rules of mortgage regulation say. I do think that Tandem ought to have made further enquiries into Mr M’s expenditure at the time. Although the minimum standard required by the rules is only to obtain information about expenditure, there is an overarching obligation to act fairly and as a responsible lender.

It seems reasonable to take from Mr M’s wider circumstances that he may have been struggling to manage his finances at the time of his application. I think it should have been clear from the information presented to Tandem that his lifestyle was unsustainable on his income and he had been building up debts in the period leading up to this loan being taken out. From what I can see from Mr M’s credit file report, it seems Mr M’s debt had increased substantially in the period from January 2019 to January 2020. In those circumstances, I think – acting responsibly – Tandem ought to have satisfied itself of Mr M’s financial situation and stability by making more detailed enquiries into Mr M’s expenditure rather than taking what it was told at face value.

I think there were grounds for doubting whether Mr M was really living within his means – or whether, as his credit history suggested – living beyond it. I’m therefore satisfied that, acting responsibly, Tandem ought to have made further enquiries as it had reason to doubt what it had been told, and that should have included requesting copies of his bank statements.

I’ve reviewed the bank statements and I’m satisfied that, had Tandem viewed these at the time, then it shouldn’t have lent because the loan would have been shown to have been unaffordable.

The bank statements show spending way in excess of that which was declared, with substantial gambling transactions. Whilst some of the additional spending could be discretionary expenditure, it still needs to be considered and a discussion held about which payments could possibly be reduced and to what level. But bearing in mind what Tandem knew, or ought to have known, about Mr M’s history of debt, plus the level of gambling transactions I can see on Mr M’s bank statements, it doesn’t seem he was in a position – at that time – to reduce his spending to a level where this loan would have been affordable and sustainable.

For all those reasons, I think the information Tandem used to assess Mr M’s affordability significantly underestimated his expenditure and, based on the information that would have

been available at the time (had it been asked for), it's more likely than not that the loan wasn't affordable for Mr M. I don't think Tandem took reasonable steps to ascertain whether the lending was affordable and sustainable, nor do I think it carried out a sufficiently robust affordability assessment.

Having considered everything very carefully I'm not persuaded Tandem acted responsibly when it agreed to lend to Mr M, and so I uphold this complaint.

Putting things right

To put matters right, Tandem should bring the loan agreement to an end and remove any adverse entries associated with this loan from Mr M's credit file. It should remove the £3,935 fees from the balance, as well as all interest charged on the borrowing to date. If any other fees have been added to the balance over the life of the loan those should also be removed.

Tandem should then treat all the payments Mr M has made as payments reducing the capital balance.

If this results in a balance outstanding, Tandem should reach a sustainable arrangement with Mr M for the repayment of the remaining outstanding capital balance, without applying future interest.

If, however, this means that Mr M has already repaid more than the capital he borrowed, the excess should be refunded to him, adding simple annual interest of 8% running from when any payments above the total capital amount were made to the date Tandem refunds them.

In this scenario, Tandem may deduct income tax from the 8% interest element of my award, as required by HMRC – but should tell Mr M what it has deducted so he can reclaim the tax if he is entitled to do so.

It is possible Mr M would have come to some arrangement with his unsecured creditors had this loan not existed. So it's not possible to be sure exactly what capital or interest Mr M would have had to pay if the debts had not been consolidated into this loan. It's likely that removing all interest from this loan results in a saving to Mr M compared to the amount he would have had to pay towards the consolidated debts had they not been consolidated. But it's also possible he would have entered an arrangement such as an IVA or bankruptcy which would have led to him paying less (though with other consequences).

It's likely there is some saving in removing interest from the loan. But nevertheless I think it's a fair outcome to this complaint because I don't think it's fair and reasonable for Tandem to recover fees and interest charged under a loan agreement that ought never to have been entered into.

Although the existence of this loan caused Mr M distress and inconvenience, with the added worry that it was secured over his property, I don't propose to compensate Mr M separately for the distress and inconvenience this lending and the associated financial difficulties caused him. I think the saving made in writing off the interest on this loan, compared to what he would likely have had to pay had the debts not been consolidated, represents fair compensation for that.

Going forward, if a debt remains once the above work is completed, Mr M needs to speak to Tandem about his situation either directly or with the help of someone trained to give him free debt advice - such as StepChange or Citizens Advice - and have an open and honest conversation about his circumstances and worries for both now and the future. They'll need to work together and that means Mr M will need to be frank about his situation. And Tandem

will need to listen to what he has to say and, fairly and sympathetically, see if there's a way to work with him to agree a way forward.

If a suitable way forward can't be agreed then that would be a new complaint Mr M could make, if he so wished, and that could then be referred to us as a new matter at the time (subject to our usual rules).

My final decision

I uphold this complaint and order Tandem Home Loans Ltd to put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 4 December 2025.

Julia Meadows
Ombudsman