

The complaint

Mr and Mrs L complain that Evolution Lending Limited irresponsibly lent them a second charge mortgage (secured loan).

What happened

Mr and Mrs L took a secured loan with Evolution in January 2020. They borrowed £50,000 plus fees of £5,699 over a term of 15 years at a variable interest rate, initially 14.03%. This meant the initial monthly payment was £712.07. The borrowing was partly to consolidate unsecured debt and partly to meet a tax liability.

In 2025 Mr and Mrs L complained about the lending decision. They said Evolution hadn't made sure the loan was affordable for them. Mrs L wasn't working at the time and Mr L was self-employed. Evolution didn't agree that it had irresponsibly lent, so Mr and Mrs L brought their complaint to us.

Our investigator said the complaint should be upheld. He said that Evolution had included benefits payable in respect of Mr and Mrs L's child as part of their income, but those benefits shouldn't have been included because their child would turn 18 during the life of the loan and the benefits would stop. He said that without that income the lending wasn't affordable and so Evolution shouldn't have lent.

Evolution didn't agree. It said that the broker who sold the loan had discussed this with Mr and Mrs L and they had said that Mrs L was actively looking for work at the time of the application – there was no reason to believe she wouldn't have been able to find work, and it was reasonable to assume that when she did her income would more than replace the lost benefits. It asked for an ombudsman to review the complaint.

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.

In deciding whether it was responsible to lend, Evolution had to follow the rules of mortgage lending. The rules require it to consider whether the lending was affordable. In deciding that Evolution should obtain evidence of income and information about expenditure – it's entitled to rely on what it was told about expenditure unless there were common sense grounds to doubt it. And it can take into account either actual expenditure or modelled expenditure for households of similar types. It should also verify other credit commitments. Where, as here, the loan was for debt consolidation, Evolution should either have made sure Mr and Mrs L would clear their other debts on completion, or taken those debts into account as part of the affordability assessment.

I don't think it was unreasonable that Evolution lent even though only Mr L was working at the time of the application. It will often be the case with joint lending that the two parties have different incomes – or even that one has no income at all – and that the lending might not therefore be affordable for either or both of them if assessed as a sole application. What

matters is whether it's affordable jointly – so it was reasonable for Evolution to accept a joint application even though most of the income came from Mr L.

The issue in this case is whether Evolution ought, acting fairly, to have assessed the loan as affordable relying on the child benefit and carer's allowance Mrs L received. Our investigator didn't think it was, but Evolution didn't agree.

The rules of mortgage regulation require the affordability assessment to be based on whether the customer will be able to pay the sums due under the agreement – which means making the payments reasonably expected over the term of the loan. That includes taking into account likely future changes during the term. Affordability is therefore a matter to be assessed over the life of the loan, not at the moment of application or completion.

Mr and Mrs L had one child at the time of the application. That child was 17 years old, almost 18. Therefore the child benefit entitlement would have ended within a few months of the loan completing. I don't in those circumstances think that it was fair and reasonable for Evolution to have included this income in the affordability assessment. In my view, Evolution ought to have understood that there was a change of income – loss of the child benefit – shortly after completion and not taken that income into account.

Mrs L also received carer's allowance. I understand that this was related to caring for her elderly mother, who had a chronic health condition. I'm not persuaded it was reasonable to rely on this income either. Again, I think it ought to have been foreseeable to Evolution that this income might not be in place over the 15 year term of the loan.

Evolution said it was reasonable to take this income into account. It said that Mrs L said that she was actively looking for work and intended to take work as soon as the child reached 18. It said it was reasonable to assume that Mrs L would be able to find work, and that any work she did find would more than offset any reduction due to the ending of child benefit or carer's allowance.

I'm not persuaded by this. Firstly, in my view the assessment of income and expenditure should be based on Mr and Mrs L's circumstances as they actually were, not as they hypothetically might be if they made a change to their circumstances.

I don't think there was any guarantee that Mrs L would find a job by a particular date or at a particular salary level, and I don't think it was reasonable for Evolution to have assumed that she would in considering whether the loan was affordable. Although the child benefit would end shortly, the carer's benefit would continue while Mrs L remained a carer. I'm aware that there are strict eligibility requirements for carer's benefit which limit the amount someone can work and still remain a recipient of the benefit. And there's the practical consideration too – if Mrs L spends significant time as a carer (which she must have been doing, to qualify for carer's allowance), that limits the time she had available for work and therefore the income she would receive even if she could find a job compatible with caring.

For those reasons, I don't think it was fair and reasonable for Evolution to rely on the child benefit and carer's allowance for the purpose of assessing whether the loan was affordable over the 15 year term. And I don't think it was fair and reasonable for it to assume that Mrs L would be able to find a job to replace the child benefit that would be lost within a few months.

Looking at the information Evolution obtained, it found that Mr and Mrs L's combined income was £3,337.47 – including the benefits – and their expenditure was £2,434.44, leaving £903.03 per month to cover the Evolution loan and any other non-essential expenditure. The monthly payment on the Evolution loan was £712.07 – leaving £190.96 left over. The child benefit was £89.94 and the carer's allowance was £287.42 per month. In my view, Evolution

couldn't fairly have concluded that the loan was affordable on a sustainable basis for Mr and Mrs L without the benefit income – I've explained above why I don't think it should have been included and why I don't think Evolution could fairly have assumed it would be replaced by employment income when Mrs L didn't actually have a job.

Putting things right

For those reasons, I'm satisfied that Evolution didn't lend responsibly. I therefore uphold this complaint. To put things right, Evolution should re-work the loan balance removing all fees and interest charged to date, leaving only the capital balance of £50,000 that Mr and Mrs L borrowed. It should then apply all payments they've made to date to reducing the capital balance.

If, having done so, there is an outstanding balance then Evolution should work with Mr and Mrs L to come to an affordable arrangement for repayment of the outstanding balance. It may retain the charge over the property until it is repaid.

If, however, Mr and Mrs L have paid enough to have repaid the capital balance in full then Evolution should remove its charge over the property. Any additional amount paid above the capital balance should be refunded to them, adding simple annual interest of 8% running from the date each payment was made to the date it's refunded. Evolution may deduct income tax from the 8% interest element of my award, if appropriate, but should give Mr and Mrs L a tax deduction certificate so they can reclaim the tax from HMRC if entitled to do so.

In either case, Evolution should remove any information about the loan from Mr and Mrs L's credit files.

I've also thought about whether to award compensation for distress and inconvenience, given what Mr and Mrs L have said about the impact of the lending on them. However, I've decided not to make an award. I've directed that Evolution should not charge interest on a loan it should never have lent. But I recognise that may result in a saving to Mr and Mrs L to the extent that the loan consolidated other debts on which – if they'd not come to some arrangement with their creditors – they would have had to pay interest had they not been consolidated. I think it's likely the saving would outweigh any award of compensation I might make and so I make no separate award.

My final decision

My final decision is that I uphold this complaint and direct Evolution Lending Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L and Mr L to accept or reject my decision before 12 February 2026.

Simon Pugh
Ombudsman