

The complaint

Mr C complains Santander UK Plc (Santander) acted unfairly by agreeing to a loan he said was unaffordable.

What happened

Around August 2023 Mr C entered into a Fixed Sum loan agreement with Santander for £14,000. After interest and charges were applied Mr C, in total needed to repay £20,301. This was repayable over 60 months at £338.35 a month. The purpose of the loan was for debt consolidation. Mr C complained to Santander saying they hadn't sufficiently checked whether he could sustain the monthly repayments. And as a result, he'd had to borrow further to meet his credit commitments causing him financial loss.

Mr C referred his complaint to us.

Our investigator said Santander checks weren't reasonable and proportionate. And following further checks said Mr C didn't have sufficient disposable income to sustain the repayments so Santander had made an unfair lending decision. He asked Santander to put things right.

Santander didn't agree they said their checks were reasonable and proportionate. And that our investigator hadn't taken account of Mr C's mortgage being joint, and so his contribution should have been considered at 50%. As they disagreed Mr C's complaint has been referred to an ombudsman 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, I've reached the same overall conclusions as the investigator, and for broadly the same reasons. Whilst I've read and considered everything, if I don't mention any specific point, it's not because I failed to take it on board and think about it, but because I don't think I need to comment on it to reach what I think is a fair and reasonable outcome. This is not meant as a discourtesy but rather reflects my role of resolving disputes with minimum formality.

Our general approach to complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, is set out on our website. I've had this approach in mind when considering Mr C's complaint.

Santander needed to take reasonable steps to ensure that they didn't lend irresponsibly. This means they needed to carry out reasonable and proportionate checks to make sure that Mr C could afford to repay what was being lent in a sustainable manner.

There's no set list of checks that a lender must carry out. But the checks must be borrower focussed and should consider several things, such as the amount being lent, the length of the agreement, the number of repayments, the total amount repayable and what Santander

knew about Mr C at the time he applied for the loan. I'd expect the checks to be more thorough the higher the lending, the longer the borrower is indebted for, and the lower the borrower's income.

CONC says a lender needs to take reasonable steps to estimate a consumer's income and non-discretionary spending. It says they shouldn't solely rely on a consumer's declared income but seek to validate this through the use of an independent source such as a credit reference agency (CRA) or third party. CONC does allow for the use of statistical data in determining a consumer's non-discretionary spending. This information must enable the lender to carry out a reasonable creditworthiness assessment.

Santander said they used application, CRA and statistical data to assess Mr C's credit worthiness. I've considered these checks and what they showed.

Mr C declared he'd a monthly salary of £2,950 with outgoings of £2,000 (no breakdown provided). Santander's affordability data shows they considered Mr C to have housing costs of £415, other expenditure of £1,145, credit commitments of £885, factoring in the new lending which they've used the figure of £342 (actual loan repayment is around £338) would have meant Mr C would have a disposable income of around £163. The check also showed Mr C had unsecured debt of £38,300. The evidence Santander has provided doesn't show details from the credit bureau check about Mr C's payment history, but they've told us the checks didn't report any adverse data such as defaults. Based on their modelling, his declared income and outgoings and the result returned from the bureau check Santander decided the lending was affordable for Mr C.

Ordinarily I could say here that Santander made an unfair decision, as I consider an estimated disposable income of around £163 a month is quite low when you consider Mr C was a homeowner and he was asking to borrow £14,000, with monthly repayments of around £338 for around five years. But Mr C said he was borrowing to help with other lending he had, he'd told Santander that the loan was for debt consolidation which should have seen his disposable income increase. I haven't seen any evidence of Mr C or Santander clarifying the debts he intended to consolidate. So, I don't think Santander had enough information to make a reasonable credit worthiness assessment, hence I can't say Santander's checks were reasonable and proportionate.

Also, whilst I acknowledge they've said they used the higher amounts from their statistical data for Mr C, I can't see any evidence that showed Mr C's financial situation such as whether he'd any dependents, albeit he'd a joint mortgage to base their modelling on. They've said they accepted Mr C's declared income, but I haven't seen any evidence that they validated the amount declared, and given the loan was for £14,000 and that Mr C would be indebted for around five years I would have expected this to be done. I've also noted that the credit checks didn't show any information about the way Mr C was managing his other accounts, such as whether he'd missed any payments, had been in arrears, or subject to a county court judgment. I accept Santander said this didn't return any adverse data but without this missing information I can't say they'd a clear enough picture of Mr C's financial circumstances at the time.

But saying Santander should have done more before lending to Mr C doesn't automatically mean his complaint should succeed. I also need to be persuaded that what I consider to be proportionate checks would have shown Santander that Mr C couldn't sustainably afford the credit.

As previously mentioned, there isn't a set list of checks that a lender should make, but bank statements will I think usually provide a good understanding of someone's financial situation as they should show their income and essential outgoings.

Mr C has provided his bank statements that his salary is paid into for the three months leading up to the new lending, May, June and July 2023. From these it can be seen that large credits were being paid in from another bank account which would appear to show Mr C had access to other funds. He's provided his bank statements for this account for the same months. And this shows Mr C was paying some of his essential outgoings from this account and that he was persistently using his overdraft.

Having reviewed all of Mr C's bank statements I can see his average monthly income was around £2,944. His credit commitments, including his overdraft charges, before any debt consolidation and factoring in the new lending was around £1,233. And his other essential spending was around £1,797. Meaning Mr C didn't have any disposable income left to sustain his repayments. I take on board Santander's comments that Mr C was only liable for 50% of his mortgage, but the purpose of further checks is to discover Mr C's actual income and expenditure, and it can be seen that he was paying around £830 each month for his mortgage, with no evidence of other monies from the joint mortgage owner being paid in to cover this.

From Mr C's credit report, I can see he paid the outstanding balance on two of his credit card accounts after he'd the loan from Santander. I've considered this as it shows Mr C's non-discretionary expenditure would have been reduced by around £249 each month.

I can also see Mr C used a high-cost credit provider having a credit limit of £1,300, and that he was generally utilising this amount each month with it being paid into his account. While at the same time Mr C generally repaid the same amount around the time his salary was paid each month. I've not included these amounts as the income and outgoings tended to balance one another out, but I think this shows Mr C's reliance on high cost borrowing to manage his finances.

As mentioned, affordability checks should be "borrower-focused", meaning Santander needed to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Mr C. In other words, it wasn't enough for them to think only about the likelihood that they would get their money back without considering the impact of repayment on Mr C himself.

While I think Santander's assessment showed Mr C should have around £163 a month in disposable income, and further checks would have reached the same figure but only after Mr C had consolidated some of his debts. I don't think, on balance, that this was sufficient for him to sustain his repayments. I say this as further checks showed Mr C's reliance on high-cost borrowing, the amount Santander lent to him wouldn't have been sufficient to settle Mr C's unsecured debt, the debt he did settle was less than his new repayment amount. And given Mr C was a homeowner, even though he'd consolidated some of his debts I don't think with a new loan amount of around £338 each month, that £163 meant he'd sufficient funds remaining to be able to sustainably afford the new loan over a long period of time.

I've also considered whether Santander acted unfairly or unreasonably in some other way given what Mr C has complained about, including whether their relationship with him might have been viewed unfair by a court under Section 140A Consumer Credit Act 1974. But I'm satisfied the redress I've directed based on what I've seen results in fair compensation for Mr C, so no additional award would be appropriate in this case.

Putting things right

Mr C has had the benefit of the £14,000 loan and I think its fair that he should pay this back. But I don't think he should pay any interest and charges that have been applied to loan.

My final decision

I uphold this complaint. And ask Santander UK Plc to:

- Rework the loan account removing all interest, fees, and charges that have been applied. If the rework results in a credit balance, this should be refunded to Mr C along with 8% simple interest* per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information recorded regarding the unfair lending from Mr C's credit file. Or, if after the rework there remains an outstanding balance to arrange an affordable repayment plan with Mr C for the remaining amount. And once any outstanding balance has been settled remove any adverse information recorded in relation to the unfair lending.

*HM Revenue and Customs requires Santander to deduct tax from any award of interest. They must give Mr C a certificate showing how much tax has been taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 25 February 2026.

Anne Scarr
Ombudsman