

complaint

Mrs C complains about Santander UK Plc ("Santander") in respect of a loan she took on to replace and consolidate other debt. She feels that this loan was mis-sold to her and that she was pressured into taking on a loan at a higher interest rate.

background

Mrs C previously had a loan with Santander. This was for £7500 in late 2016. The loan had an interest rate of 3.54% and was set up over 60 months, so her monthly payment was around £135 per month.

Mrs C made her repayments on the loan, and by August 2018 the balance stood at around £5064 outstanding. Mrs C had separately built up other debt balances, in credit cards and finance agreements.

In August 2018, Mrs C approached Santander for a further loan to buy a car. She was unable to attend her usual branch of Santander and attended an appointment at another branch.

Mrs C discussed her existing borrowing with the member of staff and was offered a further loan, of £1506.62, in order to repay her existing loan and to make available a further £10,000 of lending. The member of staff noted this as being for debt consolidation purposes.

The loan offered to Mrs C had an interest rate of 15.9% and, over 60 months, was to be repaid at £357.18 per month.

Mrs C accepted the loan, and the member of staff transferred funds to settle her original loan while she was in branch. Further payments were then made to settle other debts, including a credit card and an overdraft debt, leaving Mrs C with a small residual balance from the new lending.

Mrs C did not cancel the new loan within the cancellation period, as she believed she was unable to, having used the capital to settle other debts.

Mrs C has subsequently struggled to maintain her repayments, and complained to Santander in November 2018, after having had the loan in place for only a few months. She complained that she had felt pressurised into taking the loan at the higher interest rate and she did not think that the loan was affordable for her.

Santander responded to Mrs C's complaint in November 2018. Santander upheld parts of Mrs C's complaint, relating to the member of staff's attitude and that she had had to travel to a branch further away from her home. Santander did not uphold her complaint regarding the sale of the loan, however, and pointed to an assessment of affordability having been done, and that the loan included a cancellation period which Mrs C had not used. Santander offered Mrs C £60 compensation for her distress and inconvenience at having to travel further afield and at her feelings that the staff member had applied inappropriate pressure.

Mrs C was not happy with this response and contacted us.

One of our investigators has looked into this matter and set out his view to the parties. This view was that over all the loan which had been offered was affordable, based on the

information given by Mrs C, and was not mis-sold. He was, however, concerned that as the loan appeared to be for debt consolidation purposes it was not appropriate to replace the original loan (of around £5000 at a substantially lower rate) with lending at a higher interest rate. The investigator considered that this ran contrary to the objective of reducing Mrs C's liability.

The investigator therefore recommended that Santander recalculate the loan so that the interest rate of 3.54% applied to the proportion of the second loan which replaced the first loan. He also recommended that Santander apply 8% interest to Mrs C's extra interest payments and reduce her outstanding debt further. He also considered that Santander should pay a further £100 to Mrs C as compensation for her distress and inconvenience.

Santander did not accept this recommendation and requested that the complaint be passed for an ombudsman decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

In addition I have made some further enquiries with both Mrs C and Santander.

Santander has provided additional details which informed its affordability assessment on Mrs C. Mrs C informed Santander of her income and expenditure on the basis that she had around £700 per month disposable income, not taking into account expenses such as food and bills. Santander has provided additional evidence which took into account standardised expenses, adjusted to Mrs C's circumstances.

On the basis of this evidence, I consider that Santander completed a reasonable assessment of Mrs C's income and expenditure at the time she applied for the loan. This took into account her living expenses, existing debts (including those which would continue) and the new loan repayment and concluded that her income was sufficient to meet those expenses.

I therefore agree that at the time the loan was approved, it appeared that it was affordable to Mrs C.

I also agree with the investigator's view that the reason for the borrowing is relevant, and should be borne in mind during the sale process. Where a customer is seeking borrowing for the purpose of debt consolidation, it is reasonable to expect that the lending will improve the customer's position in relation to overall liability and regular outgoing costs.

Mrs C has provided information that her main credit card debt was offered on a similar interest rate to the loan which replaced it, and a further debt was reaching the end of its interest free period. Consolidating these debts into a single payment on a comparable interest rate was reasonable and could reasonably assist the consumer.

In respect of the proportion of the second loan which replaced the first loan, Santander has set out that, because this extended the life of the debt by around 22 months, it reduced the monthly cost of this borrowing from around £136 per month, to around £120 per month.

I understand that position, but by extending the term and applying the higher interest rate it also added around £2000 total liability to that part of Mrs C's debt. In my view this did not improve Mrs C's position, and was not a reasonable alternative to Mrs C's original loan.

It may be that Mrs C would have chosen a monthly saving of £16 in exchange for incurring a much greater liability, but I do not think it likely that it was made clear to her before she took on the loan that she would be incurring so much more debt whilst still increasing her overall monthly repayments. Alternatively, if Mrs C considered that it was so necessary to make a small reduction in the monthly repayment on that part of her debt that she was prepared to accept a substantial increase in the total debt then I also think it is unlikely that her new total monthly repayment (of more than £350) was realistically affordable.

Consequently, I agree with the investigator's view that this part of the loan was not appropriate for Mrs C and I uphold Mrs C's complaint.

In order to put matters right I consider that Santander should recalculate the loan so that the interest rate of 3.54% applies to £5064.62 of the total capital. This will reduce Mrs C's monthly repayment for the remainder of the loan term.

In respect of payments which Mrs C has already made, Santander should apply 8% interest to the proportion of Mrs C's payments which reflect an over payment on the recalculated loan. This can then be deducted from the outstanding debt.

As I consider that this part of the loan was inappropriately sold to Mrs C, I agree with the investigator's assessment that compensation for distress and inconvenience should be paid.

A total of £160, when considered alongside the recalculation of the loan, is in line with other awards we would make in similar circumstances, and is reasonable in my view.

my final decision

For the reasons set out above I uphold Mrs C's complaint and direct Santander UK Plc to:

- recalculate Mrs C's loan, from inception, so that the rate of 3.54% applies to £5064.62 of the loan capital;
- recalculate Mrs C's monthly repayment for the remainder of the term, using the amended interest rate;
- treat the proportion of Mrs C's payments to date, which exceeds the new monthly repayment, as overpaid interest;
- pay 8% interest on Mrs C's overpaid interest, from the date of Mrs C's payment up until the date of settlement. The above overpayment and interest can be offset against the outstanding balance; and
- pay to Mrs C a total of £160 compensation for distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 3 July 2020.

Laura Garvin-Smith
ombudsman