

complaint

Mr M complains that Santander UK Plc lent irresponsibly when it approved an overdraft increase in April 2017 and a loan application in March 2018.

background

Mr M has a Santander current account with overdraft facility. Mr M has had a number of loans with Santander going back to September 2012. The most recent loan was for £8,000 and was approved in March 2018. Part of the new loan was used to repay Mr M's existing loan and around £4,000 was paid to his current account.

Last year Mr M's daughter (Mrs P) contacted Santander on his behalf and complained about the borrowing it had approved. She pointed out that Mr M is over 80 years old and feels he's in a vulnerable position. Santander responded on 5 November 2018 but said Mr M's application had been referred to its underwriters and approved because it was affordable.

On behalf of her father, Mrs P asked us to look at his complaint and it was passed to an investigator. The investigator thought the complaint should be upheld as Mr M's bank statements showed he had an extensive history of gambling. The investigator said that if Santander had looked at Mr M's bank statements it would most likely have declined to lend. She said Santander should refund any interest and charges Mr M has paid to the loan balance and remove them from future payments.

Santander didn't agree. It accepted Mr M's bank statements showed he gambles extensively but says he's managed his accounts within the agreed limits. Santander said its systems approved the loan without any intervention from staff members and that it didn't check the bank statements. Santander asked to appeal the investigator's view so Mr M's complaint has been passed to me to make a 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.

Santander says that Mr M's accounts were run within the agreed limits and he hadn't missed any payments. I understand that Santander also checked Mr M's credit file before agreeing to proceed and looked at what he told them about his outgoings. When Mr M's outgoings figure seemed too low, Santander used a higher figure to ensure the loan was affordable. When considering whether to borrow I'd expect a lender to complete proportionate checks to ensure the borrowing was sustainable over the term.

Whilst I note the above, I'm not persuaded that Santander's checks went far enough in this case. And, if Santander had completed proportionate checks, I think it's more likely than not that it would've declined to proceed with Mr M's loan application.

Like the investigator, I've looked at Mr M's overdraft extension in April 2017. The level of increase was reasonably modest and whilst I can see Mr M regularly used the overdraft it's managed in line with the account terms. I don't think Santander made a mistake when it approved the overdraft extension.

I don't think the checks Santander completed before deciding to proceed with the loan in March 2018 were reasonable or proportionate. Santander's told us that it didn't find any concerns on Mr M's credit file and his previous loan accounts had been well maintained. It's explained that Mr M was borrowing, in part, to repay a more expensive loan so the refinance led to less interest being paid. I agree with all these points. But I think there were other points Santander should've thought about. Had it done so, I think it would've looked more closely at his application.

Mr M is over 80 years old and has had an active loan with Santander since September 2012. I appreciate Mr M's first loan was repaid in full but Mr M applied for a new loan on 4 November 2014, around two weeks after he repaid the previous one. Since then, Mr M has refinanced his borrowing several times and this is the fifth loan in that process.

Another point Santander could've taken into account was that the term significantly increased. The longest previous term was 36 months but this new loan was for 60 months. So whilst I accept his interest rate went down, the term of the borrowing increased substantially. An increase in the term of borrowing after such a long period of continuous lending should've caused Santander to look closely at Mr M's loan application.

I note the loan amount increased substantially when it went up to £8,000. Again, I think this was a point where Santander should've thought about Mr M's application in more detail.

Taken together, I think the above should've been enough to cause Santander to ask more questions about Mr M's loan application. I appreciate Santander's point that the loan was approved by an automated system. But I think there were enough warning signs here that the application should've been considered again. I note that Santander's final response dated 5 November 2018 says the application was passed to a team of underwriters and approved. But Santander later said the loan was automatically approved by its systems.

Had Santander completed proportionate checks I think it would've asked Mr M for more information and evidence of his circumstances. I can't tell it how to underwrite a loan, but I note Mr M holds his current account with Santander and that's one of a number of things it could've looked at before deciding to proceed.

Santander's sent us statements for Mr M's account and I can see an extensive history of gambling. Often, Mr M gambles several times more than his monthly income. I note Santander's point that he managed his accounts in line with the terms but I still think that if someone had completed more comprehensive checks, like reviewing his bank statements, it's more likely than not that the application would've been declined.

Taking everything I've seen into account, I agree with the investigator's view that Santander lent irresponsibly when it approved Mr M's loan in March 2018. I think there were several warning signs, not least the continuous borrowing history, increase in loan amount and significant increase in term which should've caused Santander to think about the checks it completed. Had Santander completed proportionate checks I think it's likely it would've found Mr M's gambling history and declined to approve the loan. As a result, I agree this complaint should be upheld.

my final decision

My decision is that I uphold this complaint and direct Santander UK Plc to do the following:

- Refund all interest and charges applied from the date the loan was funded to the date of settlement. The refund should be used to reduce the outstanding loan balance.
- Remove interest and charges from the loan for the remainder of the term.
- Delete any adverse information registered with the credit reference agencies in relation to Mr M's loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 June 2019.

Marco Manente
ombudsman