DRN-3322396

The complaint

Mr M says Lendable Ltd irresponsibly lent to him.

What happened

This complaint is about a 36-month instalment loan for £6,500 that Lendable provided to Mr M on 10 June 2020. The monthly repayments were £232.39 and the total repayable was £8,334.39.

Mr M says he was desperate at the time due to family circumstances, and he had to borrow again to repay this loan.

Our adjudicator upheld Mr M's complaint and thought Lendable shouldn't have given the loan. Lendable disagreed, saying its checks showed Mr M had sufficient disposable income to afford the loan, and so the complaint was passed to me.

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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr M's complaint. These two questions are:

1. Did Lendable complete reasonable and proportionate checks to satisfy itself that Mr M would be able to repay the loan without experiencing significant adverse consequences?

    - If so, did it make a fair lending decision?
    - If not, would those checks have shown that Mr M would've been able to do so?

2. Did Lendable act unfairly or unreasonably in some other way?

The rules and regulations in place required Lendable to carry out a reasonable and proportionate assessment of Mr M's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Lendable had to think about whether repaying the loan would cause significant adverse consequences *for Mr M*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Mr M undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Lendable to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr M. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);

- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr M's complaint.

Lendable has provided evidence to show that before lending it asked for some information from Mr M. It asked for his monthly income, his employment status and his residential status. It completed an income verification check with a third-party and, it seems, made an assumption about his living costs. It carried out a credit check to understand his credit history and his existing credit commitments. I can't see it asked about the purpose of the loan. Based on these checks Lendable thought it was fair to lend.

I'm not wholly persuaded these checks were proportionate – given the term of the loan I would have expected Lendable to want to understand Mr M's actual living costs to ensure he would be able to make the repayments sustainably for three years. But I won't comment further on this as I don't think the lender made a fair lending decision based on the information it had gathered. I'll explain why.

Mr M applied for this loan nine months after he had taken out a previous loan with Lendable. At the time this had a balance of £8,766 and the monthly repayments were £400. Between that time and this application he had then taken out a further five credit accounts (I note two were telecoms). By giving this loan, without settling the first loan, Lendable was increasing the proportion of his monthly income that Mr M would need to spend on servicing his debt to over 30%. At this level I think it ought to have realised there was a risk Mr M would not be able to repay this loan without suffering adverse financial consequences. And to meet its regulatory obligations it needed to consider this, not just the pounds and pence affordability.

Lendable points out that Mr M repaid this loan early and had an excellent repayment history on his previous loan, but it can't fairly conclude that means the loan was affordable. It doesn't know how he was able to do this. I have also considered the lender's comment that Mr M credit check showed no adverse data. But as I've set out above it was required to think about the likely impact of its lending on Mr M over the term of the loan – not just his current position, so this does not change my conclusion.

It follows I think Lendable was wrong to give this loan to Mr M and Lendable needs to put things right.

I've also thought about whether Lendable acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right – what Lendable needs to do

I think it is fair and reasonable for Mr M to repay the capital amount that he borrowed, because he had the benefit of that lending. But he has paid extra for lending that should not have been provided to him so Lendable needs to out that right.

It should:

- refund all interest and charges Mr M paid on the loans;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement†; and
- remove any negative information about the loan from Mr M's credit file.

† HM Revenue & Customs requires Lendable to take off tax from this interest. Lendable must give Mr M a certificate showing how much tax it's taken off if he asks for one.

My final decision

I am upholding Mr M's complaint. Lendable Ltd must put things right as 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 26 May 2022.

Rebecca Connelley
Ombudsman