

The complaint

Mr B, through his representative, complains that Lendable Ltd lent to him without doing the proper checks and so he could not afford the loans.

What happened

Using information from Lendable, here is a brief table of the approved loans.

Loans	Date taken	Term	Monthly repayment	Total amount repayable	Date repaid
1	13/04/2018	24 months	£240.64	£4,570	unknown
2	23/10/2018	18 months	£381.96	£6,330	unknown

One of our adjudicators considered the complaint and thought that Lendable should put things right for Mr B for loan 2.

Mr B accepted this outcome. Lendable has not responded. From this it seems that loan 1 is no longer disputed and I have not reviewed it in detail although its relevant as part of the lending relationship between the parties.

The unresolved complaint was passed to me 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website. I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- did Lendable complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the loan in a sustainable way?
- if not, would those checks have shown that Mr B would have been able to do so?

The rules and regulations in place required Lendable to carry out a reasonable and proportionate assessment of Mr B'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 be sustainable. In practice this meant that the business had to ensure that

making the repayments on the loan wouldn't cause Mr B undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

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 B. 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.

Considering 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 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 the arguments, evidence and information provided in this context and what this all means for Mr B' complaint.

Mr B took two loans which were significant in commitment, and so I do consider that a comprehensive assessment was warranted. As I have outlined earlier, as Loan 1 appears not to be in dispute then I have focused on loan 2 and within the context of it being a second loan.

From Lendable's figures and explanations in its final response letter (FRL) to Mr B then I think I can assess that loan 1 was scheduled to be paid off April 2020 and it said that Mr B repaid it early and saved himself over £910 in interest.

So, I think it's more likely than not Mr B refinanced that loan 1 into loan 2. I may be incorrect on this but as loan 2 was approved for him just 6 months into the 24 month loan 1 term, and the interest saving was about £910, then I doubt Mr B had repaid all of loan 1 by 23 October 2018 from independent means. And even if he did do that – he appears to have come back for a second loan and in that scenario very quickly after repaying loan 1 if he did repay loan 1 from other means. And I am making these calculated assumptions on the information I have available to me.

So, whether Mr B repaid all of loan 1 from independent means and then came back for loan 2 quickly, or whether Mr B refinanced loan 1 into loan 2, I think this would have raised questions as to why Mr B needed additional credit and for a higher amount in such a short period. And so, I think Lendable was on notice to carry out additional checks over and above what it has told us it did.

Lendable has said that Mr B's income at loan 2 was £2,026 a month and it knew that from a payslip obtained from Mr B. Juxtaposed with the information Lendable says was Mr B's income six months earlier when he had applied for loan 1 then it looks like Mr B's income had dropped by almost a third from £2,947 to £2,026. I think that ought to have acted as an alert to make additional checks about Mr B's financial situation.

Added to which, the little information we have from Lendable is that it knew Mr B had a total indebtedness with other creditors of over £20,000.

Based on the term and the cost of this loan, I don't think these checks Lendable says it carried out for loan 2 were proportionate. [REDACTED]

And in view of what I have said earlier about Mr B's drop in income and the larger loan with higher repayments each month, then I think proportionate checks should've included obtaining a thorough knowledge of Mr B's financial circumstances including verification of the information it had. I cannot see that Lendable did that.

[REDACTED]

Usually I'd expect Mr B to have provided additional evidence about his own circumstances. Mr B has been able to send to us a copy of his credit report dated May 2018 which was a report generated just after loan 1 was approved. And so, I have relied on this in the absence of anything from Lendable. That credit search reveals some of the following details:

- Mr B was close to the limit on two credit cards with £2,500 and £300 limits
- the main part of his debt was a hire purchase account opened May 2017 for over £20,000
- another hire purchase agreement had closed May 2017. This had been for over £12,000 which shows 'back-to-back' HP agreements
- unsecured loan with another high cost lender started December 2016 and closed December 2017 - £1,500 loan
- a bank account had closed having been in arrears in 2015
- evidence of many short term lending loans in earlier years

So although the evidence about Mr B's financial situation is thin, its is more than Lendable has sent to me and so I am more persuaded by Mr B's argument that he could not afford this loan than Lendable's case that it did all the right checks. Especially when it was a second, larger loan, within 6 months of loan 1 being approved. The repayments for loan 2 were a great deal higher than for loan 1.

So, in these circumstances and on relatively limited evidence, I have decided it is fair and reasonable to uphold loan 2 of Mr B's complaint.

Putting things right

Lendable shouldn't have given Mr B loan 2. I understand from Lendable's FRL that Mr B has paid off both loans. To settle Mr B's complaint, I direct that Lendable does the following:

- A) Add together the total of the repayments made by Mr B towards interest, fees and charges on loan 2, including payments made to a third party where applicable, but not including anything already refunded.
- B) Calculate 8% simple interest* on the individual payments made by Mr B which were considered as part of "A", calculated from the date Mr B originally made the payments, to the date the complaint is settled.
- C) Pay any remaining refund to Mr B.
- D) Remove any adverse credit information from Mr B's credit file in relation to loan 2.

*HM Revenue & Customs requires you to deduct tax from this interest. Lendable should give Mr B a certificate showing how much tax it has deducted, if he asks for one.

My final decision

My final decision is that I uphold Mr B's complaint in part and I direct that Lendable Ltd does as I have outlined in the 'putting things right' section of the decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 18 July 2022.

Rachael Williams
Ombudsman