The complaint

Mr J complains that Metro Bank PLC trading as RateSetter irresponsibly granted him access to a loan. Mr J says had proper checks been carried out, the loan wouldn't have been granted.

What happened

RateSetter lent Mr J a loan in October 2021, the loan was for £7,000 to be repaid in 36 monthly instalments of £230.29. With the interest on the loan amount, Mr J was due to repay a total of £8,290.44. Mr J hasn't been able to maintain his repayments on the loan.

When he complained to RateSetter about the decision to lend, it didn't uphold his complaint, it says Mr J passed its internal underwriting checks and the loan was deemed affordable. Unhappy with RateSetter's response, Mr J referred his complaint to the Financial Ombudsman Service where it was looked at by one of our investigators.

Our investigator thought RateSetter should have done more to verify Mr J's financial circumstances before lending and had it done so, it is likely to have found he couldn't afford the loan. It was our investigator's opinion that the complaint should be upheld.

RateSetter disagreed, it said Mr J declared his income and it used tools through credit reference agencies to verify the amount Mr J declared and based on this, the loan was affordable.

As the complaint remains unresolved, it has been passed to me 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.

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

Before lending to Mr J, RateSetter needed to complete proportionate affordability checks to ensure the lending would be affordable and sustainable for him. There isn't a set or prescribed list of checks it needed to complete, as what is considered proportionate will vary with each lending decision. In deciding what was proportionate, RateSetter needed to consider things such as (but not limited to) the amount of credit, the cost of credit, the size of any regular repayments and Mr J's specific circumstances.
RateSetter has provided information to show it asked Mr J about his income and searched his credit file before lending. From the application form Mr J completed for the loan, he declared he was self-employed, without dependents, a tenant and had a gross income of £25,000. The net monthly income on the application form was around £1,720. RateSetter has provided evidence to show it verified Mr J's income through a credit reference agency which returned a high confidence level.

The results of RateSetter's search of Mr J's credit file showed he had an active loan which he'd recently taken out and at least two credit card accounts wit outstanding balances on them. RateSetter says it assigned 45% of Mr J's income to credit commitments and the rest to his normal living costs.

I've thought about RateSetter's checks and the particular circumstances here and I don't think it did enough before agreeing the loan. I say this because Mr J declared he was self employed and by the very nature of his self-employment there ought to have been reasons for further verification of his circumstances, especially when you consider the length of the agreement – Mr J would be repaying this loan for three years. I don't think in the circumstances the credit reference verification of Mr J's income was sufficient. I think in addition to verifying his income beyond credit reference agencies, RateSetter should also have been looking to understand Mr J's outgoings in the circumstances. Overall, I don't think RateSetter did enough before agreeing to lend.

To understand Mr J's circumstances around the time of this loan, I've reviewed his bank statements. In the absence of further checks by RateSetter, I think it's fair in the circumstances to rely on Mr J's actual circumstances at the time. From what I can see, Mr J didn't receive an income from his self-employment at the time. I can see he received around £1,500 for his self-employed income support in September and I can't see any other income into his account in the three months before this loan was granted. Mr J's living costs and credit commitments outweighed any income he was receiving.

I can also see Mr J was transferring money into his savings accounts and I've seen the bank statements from his savings account and Mr J didn't have savings, he was simply moving money between his accounts including moving the loan from RateSetter's between his accounts.

In Mr J's circumstances, without savings and a regular income, he wasn't in a position to afford the loan. I think further checks were needed by RateSetter here and those further checks would likely have shown Mr J couldn't afford the loan.

RateSetter in my view has lent when it shouldn't have, and it needs to put things right.

Putting things right

To put things right for Mr J, RateSetter should do the following.

- Remove all interest and charges added to Mr J's loan.

- Treat all payments made by Mr J as payments towards the capital of £7,000, if this results in Mr J paying more than the capital then RateSetter should add interest of 8% simple a year on any surplus from the date they were paid (if they were) to the date of settlement† and refund this to Mr J.

- If after the account has been reworked Mr J still has a balance outstanding RateSetter should work with Mr J to agree a suitable repayment plan.

- Remove any negative information about the loan from Mr J's credit file once it has been repaid.

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

My final decision

For the reasons given above, I uphold Mr J's complaint and direct Metro Bank Plc trading as RateSetter to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 15 April 2024.

Oyetola Oduola
Ombudsman