

Complaint

Mrs H has complained about a loan one of Metro Bank PLC's subsidiaries ("Ratesetter") arranged for her.

Metro Bank has accepted responsibility for this complaint even though it was arranged by Ratesetter in 2018. So for ease of reference, I will refer to "Ratesetter" in this decision.

Mrs H says that the loan payments were unaffordable and she had to take out more credit to meet the monthly repayments.

Background

In October 2018, Ratesetter operated the electronic platform in relation to lending which led to Mrs H being provided with a loan for £35,000.00. This loan had a 60-month term and an APR of 16.9%. This meant that the total amount to be repaid of £50,793.00, which included a total cost for credit of £15,793.00 (comprised of a loan fee of £3,615.50 and interest of £12,177.50), was due to be repaid in 60 monthly instalments of £846.55.

One of our investigators reviewed what Mrs H and Ratesetter had told us. And he thought that Ratesetter hadn't done anything wrong or treated Mrs H unfairly when bringing about this loan for Mrs H. So he didn't recommend that Mrs H's complaint be upheld.

Mrs H disagreed with our investigator's assessment and asked for an ombudsman to look at her complaint.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mrs H's complaint.

Having carefully thought about everything, I've decided not to uphold Mrs H's complaint. I'll explain why in a little more detail.

Ratesetter needed to make sure that it didn't bring about Mrs H's loan irresponsibly. In practice, what this means is that Ratesetter needed to carry out proportionate checks to be able to understand whether Mrs H could make her payments in a sustainable manner before approving her loan. And if the checks Ratesetter carried out weren't sufficient, I then need to consider what reasonable and proportionate checks are likely to have shown.

Our website sets out what we typically think about when deciding whether checks were proportionate. Generally, we think it's reasonable for pre-lending checks to be less thorough – in terms of how much information is gathered and what is done to verify that information – in the early stages of a lending relationship.

But we might think a firm needed to do more if, for example, a borrower's income was low, the amount lent was high, or the information it had – such as a significantly impaired credit history – suggested the firm needed to know more about a prospective borrower's ability to repay what they were being lent.

Having carefully thought about everything I've been provided with, I'm not upholding Mrs H's complaint. I'd like to explain why in a little more detail.

Ratesetter says it agreed to Mrs H's application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked Mrs H's declaration of income against information provided from a credit reference agency indicating the amount of funds going into her main bank account each month. It also carried out credit searches which showed Mrs H's existing commitments had been relatively well maintained.

As Ratesetter asked Mrs H about her income and expenditure and also carried out a credit check, it's clear that Ratesetter did obtain a reasonable amount of information before it decided to proceed with Mrs H's application.

Having looked at the credit check, it's clear that Mrs H had some existing debts. However, while I accept that Mrs H might not agree with this, I don't think that these were excessive in comparison to her income. Furthermore, the information from the time shows that Mrs H's selected loan purpose was debt consolidation.

I don't know whether Mrs H did go on to consolidate her existing debts with the funds from this loan as she said she would do. But the funds provided as a result of this loan weren't much more than the total amount the credit checks showed Mrs H owed to her existing unsecured creditors.

So I think that it was reasonable for Ratesetter to reach the conclusion that Mrs H could consolidate her existing debt with these funds. I've seen what Mrs H has said about using the proceeds from a house sale to reduce existing debt before this. Ratesetter wouldn't necessarily have known this and, in any event, this loan could have consolidated what was left.

Equally, Ratesetter could only make a reasonable decision based on the information it had available at the time. It won't have known whether Mrs H would actually pay off her existing balances – all it could do was take reasonable steps and rely on assurances from Mrs H that this would be done with the funds from this loan.

So I'm satisfied that the proceeds of this loan could and should have been used to clear all of the existing balances which showed on the credit search Ratesetter carried out on Mrs H. And although the interest rate on this loan wasn't low, it would still have been lower than the interest rate on some of Mrs H's existing credit – such as her credit card debt.

That said, given the amount of the repayments and the term of the loan, I think that in order for Ratesetter's checks to have been reasonable and proportionate, it ought to have found out about Mrs H's actual regular living costs and added this to what would be her debt position going forward. As Ratesetter didn't do this and instead relied on statistical data, I don't think that its checks before bringing about this loan for Mrs H were reasonable and proportionate.

As Ratesetter didn't carry out sufficient checks, I've gone on to decide what I think Ratesetter is more likely than not to have seen had it obtained further information from Mrs H. As I've explained bearing in mind what the length of the term of the agreement and

the amount of the monthly payment, I would have expected Ratesetter to have had a reasonable understanding about Mrs H's regular living expenses and for this to have been added to the information which it already had and was entitled to rely on about her income and existing credit commitments.

To be clear, while Mrs H has provided statements from more than one account (and I accept that this was at the investigator's request), I'm not going to carry out a forensic analysis of these statements to determine whether the loan payments were actually affordable, or retrospectively carry out a manual underwriting of Mrs H's application. I'm simply going to extract what I consider to be the missing information, add this to what Ratesetter had and use this to form a view on what I think that Ratesetter is likely to have done had it obtained the missing information I think it should have done here.

I say this because this information provided does appear to show that even when apportioning a higher share of the committed regular living expenses of her household to Mrs H and this is then deducted from her income, I think Ratesetter was more likely that not to have concluded that Mrs H could sustainably make the repayments due under this agreement.

I accept it's possible that Mrs H's actual circumstances at the time might have been worse than what the information she's provided shows. I sympathise with the difficulties that Mrs H has talked about and it's possible that she didn't clear her existing debts in the way that her application suggested that she would – I know that she says that she needed to borrow further. I'm also sorry that Mrs H went through and is still going through a difficult financial time. But I can't see that Ratesetter would or could have been aware of this.

As this is the case, I don't think that Ratesetter did anything wrong when bringing about Mrs H's loan - it carried out some checks and even if it had done more to ascertain Mrs H's actual normal monthly committed living costs, in order to supplement the checks it did carry out, it is unlikely to have concluded that the loan was unaffordable.

I've also considered what Mrs H has said about recent late payments Ratesetter is reporting to credit reference agencies. The first thing to say is that I don't know if and why Ratesetter chose not to report late payment information previously. But it would be unreasonable for me to say that it should now go back and report adverse information in relation to previous payments. All I can do is decide whether Ratesetter is reporting accurate information now in relation to recent payments.

I do sympathise with what Mrs H has told us. I fully appreciate why she's unhappy with adverse information being recorded on her credit file and worried about the impact this could have going forward. But it appears as though Ratesetter is recording late payment information in circumstances where, by Mrs H's own admission, the payments in question were made late.

So it is difficult for me to say that Ratesetter is reporting inaccurate information to credit reference agencies. From what Mrs H has said it appears to be reporting what happened in relation to the payments on the account (at least in terms of the entry Mrs H is unhappy about). And, in these circumstances, it wouldn't be fair and reasonable for me to require Ratesetter to amend this information.

Overall and having carefully considered everything, I don't think that Ratesetter treated Mrs H unfairly or unreasonably when bringing about her loan. And I'm not upholding Mrs H's complaint. I appreciate this will be very disappointing for Mrs H. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mrs H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 23 February 2024.

Jeshen Narayanan
Ombudsman