

The complaint

Mrs O says Lendable Ltd irresponsibly lent to her.

What happened

Mrs O took out a loan for £20,000 over 60 months on 26 February 2021. The monthly repayments were £542.99 and the total repayable (including a £990 loan fee) was £32,465.92.

Mrs O says the repayments were unaffordable. Had proportionate checks been carried out it would have been clear she was only surviving through informal borrowing from her mother.

Lendable says it carried out a credit check and income and expenditure checks. The results showed Mrs O could afford the loan and there was no reason to conduct any additional checks.

Our investigator did not uphold Mrs O's complaint. She found Lendable had lent responsibly.

Mrs O disagreed and asked for an ombudsman's review. She said the checks were not good enough and she did not have the disposable income Lendable calculated. She was dependent on borrowing £900 a month from her mother to make ends meet. Whilst she accepts she was able to use the loan to settle some credit card debts, they quickly built back up as she could not make the repayments for this loan without using other credit.

I reached a different conclusion to the investigator so I issued a provisional decision to give both parties a chance to comment. An extract follows and forms part of this final decision. I asked for any comments or new evidence by 12 March 2024.

Extract from my provisional decision

I can see Lendable asked for some information from Mrs O before it approved the loan. It asked for details of her monthly income and verified this with a third-party source that reviewed her current account turnover. It checked Mrs O's credit file to understand her credit history and current commitments. It asked about the purpose of the loan which was debt consolidation. From these checks combined Lendable concluded Mrs O had enough monthly disposable income to afford to repay the loan.

I don't think these checks were proportionate given the term and the value of the loan, and the value of the monthly repayments relative to Mrs O's income. I think Lendable ought to have completed a fuller financial review to ensure it understood Mrs O's outgoings and actual disposable income. After all, it needed to be sure its loan would not cause any foreseeable financial harm for Mrs O over a five-year period.

I have reviewed Mrs O's bank statements from the three months prior to her application. I am not saying Lendable had to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown.

From them I can see Mrs O's income was almost exactly as she had declared (£2,239). Her housing costs (rent and council tax) were £967 and her fixed bills (utilities, sky, mobile, tv license and insurances) were around £405. The loan was for debt consolidation but I cannot see Lendable understood exactly which debts Mrs O intended to settle. If it was, say, her credit card debt and hire purchase agreement, Mrs O would still need to pay £472 on her existing loans each month. As well as this new loan repayment of £542.99. This means, even without taking into account that she would have grocery and transport costs, Mrs O did not have the disposable income to take on this loan.

Mrs O has explained to this service that she was solely responsible for the household costs as her husband was unable to work.

I appreciate that as the loan was for debt consolidation it would initially reduce her monthly spend on credit, but that in itself does not mean the loan was affordable. The percentage of income Mrs O would still need to spend on credit would be high at around 45% – and as the industry knows this can be an indicator of pending financial difficulties. I think Lendable ought to have also considered that whilst Mrs O was most likely repaying credit card debt she would still have access to those credit lines. And so what went on to happen – Mrs O's credit card balances were back at the same level within a year – was largely foreseeable, and I think this over-indebtedness was financial harm that Lendable could have prevented.

Lendable commented that Mrs O's existing credit was well-managed but she has told us she only made ends meet by borrowing informally from her mother. I think this would have come to light from better checks as there were regular credits to her bank account that I would have expected Lendable to query. And I would not expect a responsible lender to include such credits in its income analysis.

So overall, I currently think that better checks would have meant Lendable ought to have realised there was a high risk Mrs O would be unable to sustainably repay this loan and so would have made a different lending decision.

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

I then set out what Lendable would need to do to put things right.

Both parties responded to my provisional decision. Lendable accepted it. Mrs O asked some questions about the details of the redress and I will ensure these are addressed in the relevant section below.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party raised any concerns or sent in new information, it follows I have no reason to change the findings or outcome in my provisional decision.

For the reasons set out above I find Lendable should not have lent to Mrs O.

Rebecca Connelley
Ombudsman

