

The complaint

Mrs O says Bank of Ireland (UK) Plc, trading as Post Office Financial Services, irresponsibly lent to her.

What happened

Mrs O took out a 60-month loan for £10,000 on 23 December 2022. The monthly repayments were £219.35 and the total repayable was £13,161. She says BOI should have done further checks and better evidenced the affordability. If it had checked her credit report and bank accounts it would have very clearly seen this loan was irresponsible and unaffordable.

BOI says it carried out proportionate checks that showed the loan would be affordable for Mrs O.

Our investigator upheld Mrs O's complaint. He said BOI's checks were not proportionate and better checks would have shown the loan to be unaffordable for Mrs O.

BOI disagreed and asked for an ombudsman's review. In summary, it said the loan was affordable at the point of application, it was Mrs O's change of circumstances that led to the repayments not being made. When Mrs O took out the loan in December 2022 she declared she was in full time employment – if this was not the case she misled the bank. She applied for another £10,000 loan within a few days meaning the likelihood of either lender seeing this activity was low. Online evidence also shows Mrs O advocates borrowing to invest and has a background and qualification in financial advising. There is no evidence to suggest that the loan provided was not suitable.

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 have followed it here. BOI will be familiar with the regulations in place at the time so I won't set them out in detail but will summarise them and refer to them if appropriate.

BOI needed to check that Mrs O could afford to meet her repayments without difficulty before agreeing the loan. In other words, it needed to check that she could meet her repayments out of her usual means without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to take into account both the nature of the credit (the amount offered or the loan term, for example) and Mrs O's particular circumstances. The overarching requirement was that BOI needed to pay due regard to Mrs O's interests and treat her fairly.

With this in mind, my main considerations are did BOI complete reasonable and proportionate checks when assessing Mrs O's application to satisfy itself that she would be able to make her repayments without experiencing adverse consequences? If not, what

would reasonable and proportionate checks have shown and, ultimately, did BOI make a fair lending decision?

Having considered everything carefully, I am upholding Mrs O's complaint.

BOI has told us it carried out an income and expenditure assessment when Mrs O applied for her loan. It used the income she declared, after adjusting it once verified, and modelled her likely outgoings based on national statistics. It completed a credit check to understand her credit commitments including her mortgage. It also asked about the purpose of the loan which was debt consolidation. These checks combined showed Mrs O would have £2,247 net disposable income each month after taking on this loan.

I am not persuaded that BOI's checks were proportionate given the value and term of the loan and the discrepancies in the initial checks between what Mrs O had told BOI about her income and what its checks showed. As the loan was over a five-year term I think BOI needed to be more certain that it had an accurate overview of Mrs O's financial position.

I have looked at Mrs O's bank statements for the three months prior to her application. I am not saying BOI had to do exactly this, just that it is a reliable way for me to understand what better checks would most likely have shown.

They show that Mrs O's salary was not as she had declared, nor as it had verified. Mrs O's income was £2,634.71 in September, £2,158.69 in October, and just £509 in November 2022. I think this would have triggered BOI to investigate further and had it done so it would have learnt Mrs O was not in full time employment having left her job in October 2022. By the time she applied she was self-employed with a much lower, and less certain, income.

In these circumstances I cannot see BOI, as a responsible lender, would have made the same lending decision – even after just checking actual income it would have become clear the loan was not affordable given its analysis showed Mrs O's mortgage and existing credit commitments alone totalled £994. BOI argues that Mrs O misled it but this does not change its regulatory obligation to carry out proportionate checks before lending and I do not find it did that here. Had it done so it would learnt Mrs O's income could no longer support taking out more credit and so as a responsible lender it would have made a different lending decision.

I have not found any evidence BOI treated Mrs O unfairly in some other way.

Putting things right

I think it's fair that Mrs O repays the capital she borrowed but I don't think she should pay any interest or charges on this loan, which I've found to have been irresponsibly given. In summary BOI should:

- Cap the amount Mrs O needs to repay at £10,000; and
- Consider all payments Mrs O made as payments towards this capital amount; and
- If Mrs O has paid more than this then BOI needs to refund these overpayments to her along with 8% simple interest per annum* from the date of payment to the date of settlement of this complaint; or
- If Mrs O has not yet repaid the capital, then BOI needs to treat Mrs O fairly and with forbearance and due consideration regarding her outstanding balance. This may mean coming to an affordable repayment plan with her.
- Remove any negative information about this loan from Mrs O's credit file once any outstanding capital balance has been repaid.

*HMRC requires BOI to take off tax from this interest. BOI must give Mrs O a certificate showing how much tax it's taken off if she asks for one. If it intends to apply any refund to reduce the capital balance outstanding it must do so after deducting the tax.

My final decision

I am upholding Mrs O's complaint. Bank of Ireland (UK) Plc, trading as Post Office Financial Services, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 8 July 2024.

Rebecca Connelley
Ombudsman