

The complaint

Mrs O complains that Santander UK Plc irresponsibly agreed loans for her.

What happened

Santander agreed two loans for Mrs O. The first was taken out in November 2021, the second in May 2022. I've summarised some of the information Santander provided about these loans in the table below.

	Start date	End date	Amount borrowed	Monthly payments	Loan term (months)	Total owed
Loan 1	30 Nov 2021	Outstanding	£7,000	£146.94	60	£8,816.40
Loan 2	4 May 2022	Outstanding	£15,000	£288.23	60	£17,293.80

From the information Santander provided, Mrs O met her repayments for these loans on time until October 2023 when a direct debit for her second loan was returned unpaid. Mrs O told Santander that she was in financial difficulty and could not meet her repayments for the loans.

In November 2023 Mrs O complained to Santander that it had been irresponsible to lend to her. She said that it hadn't completed appropriate checks beforehand and should have seen that the loans were unaffordable for her and she was borrowing more and more to cover her living costs.

Santander said that it carried out appropriate affordability assessments before lending to Mrs O to check she could afford the repayments. It relied on information she provided, information from her credit file and statistical data and concluded that the loans would be affordable for her. It didn't uphold Mrs O's complaint and she referred it to us.

One of our investigators looked into Mrs O's complaint and didn't recommend that it be upheld. They found that Santander carried out proportionate checks before lending to Mrs O each time and that it hadn't made unfair lending decisions.

Mrs O didn't agree with this conclusion and asked for her complaint to come to an ombudsman for a review and it came to me. I issued a provisional decision on 15 June 2024 to fully explain why I didn't think Mrs O's complaint should succeed and to share the information I'd relied on with both parties. I allowed time for any comments or new information from either party, but I haven't been provided with anything further to take into consideration in this final decision.

Mrs O also referred a complaint to us about a credit card she took out with Santander in early 2021, and we're investigating this as a separate complaint. My decision deals solely with Mrs O's irresponsible lending complaint about her loans, though I have born in mind that she had existing borrowing from Santander when she entered into these loan agreements.

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.

Having reviewed everything and, having no comments or new information from either party to consider, I see no reason to depart from my provisional conclusions. I'll set out again my reasons for not upholding Mrs O's complaint in this final decision.

As before, I've had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as Santander, need to abide by. Santander will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, Santander needed to check that Mrs O could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further, while meeting existing commitments and without the repayments having a significant impact on her financial situation. The checks needed to be proportionate to the nature of the credit (the amount borrowed or the term, for example) and to Mrs O's circumstances. Santander needed to bear in mind that certain factors might point towards a more rigorous assessment and others towards a less rigorous one when deciding what type of creditworthiness assessment was required.

The overarching requirement was that Santander needed to pay due regard to Mrs O's interests and treat her fairly. CONC gave an example of contravening this as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did Santander complete reasonable and proportionate checks when assessing Mrs O's applications 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 Santander make fair lending decisions?

Santander provided copies of Mrs O's application forms. It said it used this information, along with information from Mrs O's credit file to estimate her monthly debt repayments and estimated her other expenses using data from the Office of National Statistics (ONS).

Mrs O provided recent copies of her credit file and her bank statements covering the months before each loan.

Loan 1 – November 2021

Mrs O said in her application form that she was employed full-time with a net monthly income of £4,000 and expenses of £600. She said she had two dependents and was a homeowner with a mortgage.

Santander estimated that Mrs O spent £838 on housing costs and £281 on debt repayments a month based on information from her credit file. This information showed that she held two mortgages, two credit cards with outstanding balances of £9,500 and a small overdraft. There was no adverse information recorded such as defaults or delinquencies. Santander estimated that Mrs O spent £1,303 on other expenses based on ONS data. It concluded that she would have enough money left over to meet her loan repayments of £147.

I can see from Mrs O's credit file that the figures Santander relied on regarding her housing and debt costs were reasonable. I don't know if Santander independently verified what Mrs O said about her income and I think it would have been reasonable and proportionate to have done so, given the size of the loan and the term. Mrs O's income was paid into her Santander bank account and so it already held this information. The account deposits referencing her employment were on average around £3,000 in the three months prior to the lending (August, September and October 2021) so were considerably less than she'd declared.

Having carefully considered all of the available information, I've concluded that Santander would have agreed to lend to Mrs O, even if it learnt that her income was lower than she'd said, as its assessment would have shown that the loan repayments were affordable. Santander told us that the loan was for debt consolidation and so it was possible that Mrs O's existing credit card balances would reduce. The loan repayments weren't so high relative to her actual income that it was clear she'd have difficulty meeting them while maintaining all her estimated commitments. I've concluded that Santander wasn't irresponsible or unfair to lend to Mrs O on this occasion.

Loan 2 – May 2022

When Mrs O applied for her second loan she gave her income as £4,600 and her outgoings as £2,000.

Santander estimated that Mrs O spent £838 on housing costs and £354 on debt repayments a month based on information from her credit file. This information showed that she held two mortgages, a loan with a balance of £6,700, one credit card with a balance of just over £7,000 and an overdraft of £2,000. There was no adverse information recorded such as defaults or delinquencies. Santander estimated, using ONS data, that Mrs O spent £1,594 on other costs. It concluded that she would have enough money left over to meet her loan repayments of £288.

I think this assessment ought to have raised concerns for Santander as it concluded that Mrs O's revolving credit balances remained the same, when she'd taken out a loan for debt consolidation within the previous six months. Santander said that this new loan was also for debt consolidation purposes but it included the repayment for her first loan in its assessment so presumably it wasn't to be used to clear that. I haven't seen anything which makes me think Santander discussed the purpose of the loan with Mrs O, and it seems likely that agreeing this loan would more than double Mrs O's existing debt.

Bearing this in mind, and considering that the loan was to be repaid over five years, I don't think it was enough for Santander to rely on statistical data in its affordability assessment. I note that Mrs O's existing loan, credit card and overdraft were all Santander products and so it had access to information about Mrs O's finances – her income and expenses, and how she was managing her credit card for example – and it would have been reasonable and proportionate in this instance to have considered all of this information when making its lending decision.

Mrs O's bank statements show that the account deposits referencing her employment were around £3,750 on average in the three months prior to the loan (February, March and April 2022). I can see from her credit file that the figures Santander relied on regarding Mrs O's housing and debt costs were reasonable, and I haven't seen enough identifiable costs in the bank statements to conclude that her other expenses came to more than its estimated figure of £1,594.

It seems to me, based on the information I've reviewed, that Mrs O would still have been able to meet her repayments for this new loan while meeting her other commitments and living costs, and so Santander would have continued with its loan offer. I can't say that things would have turned out differently, had the assessment been more rigorous, and so I've found that Santander wasn't irresponsible to have agreed a second loan for Mrs O.

I have thought about whether Santander made a fair lending decision here, even though the loan looked to be affordable for Mrs O. As I've said above, her debt had increased in the time since her first loan and she would need to meet her repayments for both loans going forward. However, from the information I've seen, I can't say that Mrs O was overindebted to the extent that she wasn't managing to meet her debt repayments out of her usual means or that she was reliant on credit.

The available information includes the statements for Mrs O's credit card account, which show that she didn't use it for further spending but for balance transfers. She met her repayments on this account until late 2023, when she let Santander know she was having trouble with her finances. Altogether, I can't say that Santander treated Mrs O unfairly or without regard to her interests when it agreed this second loan for her.

Mrs O went on to borrow again after taking out her second Santander loan, borrowing over £20,000 the following month and building up over £14,000 on another credit card by mid-2023. Mrs O shared with us that her debts were out of control and that she was in despair over her finances. I am very sorry to hear about the difficulties Mrs O is facing and the impact it's having on her mental health. I appreciate that my decision will be very disappointing for her and I hope I've clearly explained why I don't think Santander lent irresponsibly to Mrs O or treated her unfairly regarding her loans.

I'll take this opportunity to remind Santander of its obligation to treat Mrs O sympathetically and with forbearance regarding her outstanding debts, which might include coming to an affordable repayment plan with her.

My final decision

For the reasons I've explained above, I am not upholding Mrs O's complaint against Santander UK Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 31 July 2024.

Michelle Boundy
Ombudsman