DRN-4531551

The complaint

Ms T complains that Lendable Ltd irresponsibly agreed a loan for her.

What happened

Lendable agreed a loan of £5,000 for Ms T in January 2022. The total amount owed was £8,735 including a loan fee of £420. This was to be repaid at £146 a month over 60 months (all figures rounded). I understand that Ms T made her first two payments to the loan only.

Ms T said that the loan was unaffordable as she was spending more than she earned at the time and was reliant on credit. She said Lendable would have seen this had it asked for more information from her before approving the loan.

Lendable didn't uphold Ms T's complaint. It said it reviewed her credit file when she applied and verified her income using industry-standard income verification tools. Its checks revealed no adverse information on her credit file and she met the affordability criteria for the loan. It didn't uphold Ms T's complaint and she referred it to us.

One of our investigators looked into the complaint but didn't recommend that it be upheld. They found that Lendable would have continued with its offer even if it had looked into Ms T's circumstances further before entering into the agreement because it seemed the loan would be affordable for her.

Ms T didn't agree with this recommendation and asked for the complaint to come to an ombudsman to decide. It came to me and I issued a provisional decision on 30 November 2023 explaining why I thought Ms T's complaint should succeed. I allowed time for any comments or new information from either party.

Ms T agreed with my provisional conclusions and Lendable said it didn't have any further comment or information to provide.

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 considered everything again and, having no new information to consider, I see no reason to depart from my provisional conclusions. I'll set out my reasons again for upholding Ms T'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 Lendable, need to abide by. Lendable 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 the credit agreement, Lendable needed to check that Ms T could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and take into consideration Ms T's circumstances. Lendable 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 it should carry out. Ultimately, Lendable needed to treat Ms T fairly and take full account of her interests when making its lending decision.

Ms T's application form records that she was self-employed with an income of £46,000 or £2,810 a month net. Lendable used a credit reference agency tool which checked the amount being deposited into Ms Ts bank account over several months for consistency. The check returned a figure of £1,804 a month with high confidence and Lendable used this figure in its assessment. Lendable said it didn't ask Ms T for any supporting documentation such as bank statements or payslips because the figure had been consistent over several months.

Lendable also said that Ms T's credit file showed that she was managing her active accounts well. She held a mortgage, an unsecured loan and six credit cards with balances within their respective credit limits. Lendable felt Ms T's accounts were in good standing at the time and she had not accrued any visible defaults or arrears across any of her accounts in the 36 months prior to her application.

Lendable provided the information it relied on and I've reviewed this. While there wasn't any adverse information shown on Ms T's credit report, she had almost £18,000 of unsecured debt in addition to her mortgage. This comprised a large loan with monthly repayments of £325 and several credit cards. Lendable said that, with this new loan, Ms T would need to spend around 44% of her income repaying her debts, allowing 56% for living and non-discretionary expenses. It concluded that the loan would be affordable for her.

As Lendable noted, agreeing this loan for Ms T would commit her to paying a significant proportion of her (estimated) monthly income on debt for potentially another five years. In addition, Lendable knew Ms T was self-employed and so would likely have expenses such as tax and business costs to pay which I don't think it took into account in its assessment. Altogether, I think Lendable should have carried out a more rigorous check before offering Ms T a loan so that it could reasonably assess whether or not she had the means to meet her repayments for term of the loan without difficulty.

Ms T provided her bank statements from the time which show personal and business transactions. She also provided invoices charged to her business and her tax return for 2021 to 2022. To be clear, I'm not suggesting this is the information that Lendable should have gathered but it is the information I have available and I think it's reasonable to rely on this to understand Ms T's means.

Ms T's tax return shows that her gross income from her business in that year amounted to £20,155 or less than £1,700 a month on average. Her existing financial commitments and basic living costs as shown on her bank statements came to about £1,000 a month. I haven't cross-checked every business payment from Ms T's account with her invoices and I understand that not all of her costs were paid from her bank account, but even a summary analysis of the statements shows that her business costs (excluding tax) averaged about £850 a month prior to the lending.

It seems to me that Ms T was spending more than she earned at the time and I think it's likely Lendable would have learnt this through a proportionate check and declined her application. I've concluded that Lendable was irresponsible to lend to Ms T on this occasion and so I am upholding her complaint.

Putting things right

I've concluded that Lendable was irresponsible to have agreed this loan for Ms T. As Ms T had the use of the money she borrowed I think it's fair that she repays this, but she shouldn't have to pay any interest, fees or premiums associated with the loan or have her credit file adversely impacted.

To put things right for Ms T, Lendable should now:

- Cap the amount she needs to repay at the capital amount she borrowed, this being £5,000;
- Consider all payments she's made as payments towards this capital amount;
    - If Ms T has repaid more than the capital she borrowed (which I don't think is the case) then Lendable should refund these overpayments to her along with 8% simple interest per annum*;
    - If Ms T hasn't yet repaid the capital then Lendable should treat her fairly and sympathetically which may mean coming to an agreed repayment plan with her;
- Remove any adverse information about this loan from Ms T's credit file, once settled.

* HM Revenue & Customs requires Lendable to take off tax from this interest. Lendable must give Ms T a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons given above, I am upholding Ms T's complaint about Lendable Ltd and it should now put things right for her as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 25 January 2024.

Michelle Boundy
Ombudsman