

The complaint

Mr D and Miss J complain that a predecessor financial institution which is now part of Santander UK Plc irresponsibly provided them with a loan.

What happened

Mr D and Miss J were provided with a £10,000 fixed sum loan in October 2007. The loan term was 60 months and Mr D and Miss J were required to make monthly repayments of around £195. Mr D says that before the loan was provided adequate checks weren't carried out. He says the loan was unaffordable and while they were able to make the repayments until the loan was repaid other credit commitments went unpaid.

Santander issued a final response letter in December 2022. It didn't uphold this complaint and said that it completed the necessary check for the loan to be approved based on the application made.

Mr D wasn't satisfied with Santander's response and referred his complaint to this service.

Our investigator didn't uphold this complaint. She thought that Santander should have taken steps to verify Mr D and Miss J's income and gathered further information about their expenses. But she found that had this happened the loan would have still appeared affordable.

Mr D and Miss J didn't agree with our investigator's view. They didn't find the calculation of Mr D's income gave a fair reflection of his income at the time and said a more accurate figure would leave them with disposable income of around £569 a month before the repayment of the loan. They said that they had two young children for which they needed to pay childcare costs as well as the general living costs. They said the loan wasn't affordable and they had to borrow more year after year.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

As our investigator explained, Santander needed to make sure that it didn't provide the loan irresponsibly. In practice, this means that Santander needed to carry out proportionate checks to be able to understand whether any lending was sustainable before providing it.

I note Santander's comment that the loan was repaid with no issues and that Mr D and Miss J didn't contact it during the term of the loan to advise it of any financial difficulties. However, I also note Mr D and Miss J's comment that while they made the repayments on this loan, they were missing payments on other debts.

Mr D says that adequate checks weren't carried out before the loan was provided. Given when the loan was provided, I do not find it surprising that Santander no longer has the results from the checks that were undertaken at the time and I note it says that the affordability of the loan would have been assessed and credit checks carried out. As I cannot say for certain what checks took place and the outcome of these, I have considered what it would have been reasonable to check and what this would have likely shown.

The loan was for £10,000 repayable over 60 months. Santander has said that credit checks would have taken place and while I do not have the outcome of these based on information provided by Mr D and Miss J it shows they had other debts at the time and had missed some payments in the months leading up to the loan. As this would have been identified through a credit check and noting the size and term of the loan, I think it would have been reasonable to have verified Mr D and Miss J's income and to consider information about their expenses to ensure the lending was affordable.

I do not find that Santander was required to ask for Mr D and Miss J's bank statements but as I think their income should have been verified, I think it reasonable to consider the information included in these in the months leading up to the loan. Also, as Mr D was self-employed, I have taken into account the information contained in his accounts for the year ending prior to the loan application (year ending March 2007). From the information provided, Miss J was receiving monthly income of around £2,845 as well as £120 in child benefit. Mr D's monthly post tax income based on his accounts ending March 2007 was around £2,293 (based on a gross income per month averaging £3,685). I note that Mr D and Miss J have given a different number based on additional tax Mr D needed to pay. But I think a reasonable approach to assessing his income would be on the net profit less tax and national insurance contributions. The bank statements for the months leading up to the loan appeared to give a higher income than this for Mr D but I think it reasonable to use the figure of £2,293. This would give total monthly income for Mr D and Miss J of around £5,258.

Noting the size of the repayments due under the loan compared to Mr D and Miss J's income and without further evidence to show the credit files would have shown any serious concerns of financial difficulty (evidence of some missed payments has been provided but the bank statements suggest repayments of their commitments were being made in a regular manner), I do not find that it was necessary for Mr D and Miss J's expenses to have been verified. That said a credit check would have shown they were paying around £700 a month for other loans as well as around £25 a month on a credit card. They were also paying £2,015 on a mortgage and as they were homeowners costs for utilities and insurances should reasonably have been factored in along with costs to reflect they had dependents.

Having looked through the bank statements I can see the costs for utilities, communications and insurances as well as the payments to other credit providers. But taking these into account I find this leaves around £1,487 for the Santander loan repayments and other living costs. Based on this I do not find I can say that further checks would have suggested the loan wasn't affordable. Because of this, I do not find that I can uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D and Miss J to accept or reject my decision before 5 October 2023.

Jane Archer

Ombudsman