

Complaint

Mr J has complained about a loan Metro Bank PLC (trading as “Ratesetter”) provided to him. He says the loan was unaffordable and therefore shouldn’t have been given to him in the first place.

Background

Ratesetter provided Mr J with a loan of £19,000.00 in September 2022. This loan had a 60-month term and an APR of 7.9%. This meant that the total amount to be repaid of £22,930.80, which included a loan fee of £950 and interest of £2,980.80, was due to be repaid in 60 monthly instalments of around £382.18.

One of our investigators reviewed what Mr J and Ratesetter had told us. And she thought that Ratesetter hadn’t done anything wrong or treated Mr J unfairly when agreeing to lend to Mr J. So she didn’t recommend that Mr J’s complaint be upheld. Mr J disagreed and asked for an ombudsman to look at his complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr J’s complaint.

Having carefully thought about everything, I’ve decided not to uphold Mr J’s complaint. I’ll explain why in a little more detail.

Ratesetter needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Ratesetter needed to take reasonable steps and carry out proportionate checks in order to be able to understand whether Mr J could afford the monthly repayments before providing this loan.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Ratesetter says it agreed to Mr J’s application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit search it carried out. In its view, all of this information showed Mr J

could comfortably make the repayments he was committing to. On the other hand, Mr J has said he shouldn't have been lent to.

I've carefully thought about what Mr J and Ratesetter have said.

The first thing for me to say is that this was Mr J's first loan with Ratesetter. The information provided does suggest Mr J was asked to provide some details regarding his income and expenditure and Ratesetter didn't just rely on what it was told as it carried out credit searches too. Ratesetter has provided a copy of the credit search that it carried out and it's fair to say that Mr J had had previous difficulties with credit.

I can see some payday lending from 2018 and 2019 and previous examples of Mr J exceeding his credit limit and making late payments around this time too. But this occurred more than three years prior to this application taking place. And I wouldn't have expected Ratesetter to have placed as much weight on Mr J's issues in 2018 and 2019 given his more recent repayment record was good and there wasn't anything else to show any obvious signs of difficulty.

For the sake of completeness, I'd add that I don't agree Mr J's existing balances was in itself an indication of difficulty given his income and the fact that he stated that the purpose of this loan was debt consolidation. I accept that Mr J's actual circumstances may not have been fully reflected either in the information he provided, or the information Ratesetter obtained. However, Ratesetter could only make a reasonable decision based on the information it had available at the time.

So I'm satisfied that the proceeds of this loan could and should have been used to reduce Mr J's existing balances. And I don't think it fair and reasonable to hold Ratesetter responsible should Mr J have decided against using this loan to repay his existing balances in the way that he committed to.

I say this as this was a first loan Ratesetter was providing to Mr J and there wasn't a history of him obtaining funds and then failing to consolidate debts elsewhere in the way he committed to. So I'm satisfied that Ratesetter was reasonably entitled to believe that Mr J would use the loan for the stated purpose and be left in a better position.

In reaching this conclusion, I've thought about what Mr J has said about the loan fee and the APR of this loan. I agree that the total cost of the credit is one of a number of factors that a lender needs to take into account when determining the level of checks that should be carried out before a borrower is provided with a loan. But I don't agree that Ratesetter's loan fee in itself meant that further checks were necessary, particularly as the loan fee was reflected in the APR of 7.9% (which was based on based on the total cost of the credit rather than just the interest) and the amount of Mr J's monthly payments.

Equally, it's only fair and reasonable for me to uphold a complaint in circumstances where a firm did something wrong. Given the circumstances here, and the lack of obvious inconsistencies, I think that Ratesetter was entitled to rely on what it had been told and what it had found out. As this is the case, I don't think that Ratesetter did anything wrong when lending to Mr J - it carried out proportionate checks (although I accept Mr J doesn't agree with this) and reasonably relied on what it found out which suggested the repayments were affordable.

So overall and having carefully considered everything, I don't think that Ratesetter treated Mr J unfairly or unreasonably when providing him with his loan. And I'm not upholding Mr J's complaint. I appreciate this will be very disappointing for Mr J. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 19 September 2023.

Jeshen Narayanan
Ombudsman