

The complaint

Mr S complains about The Royal Bank of Scotland Plc (RBS) and their decision to provide him with three loans between March 2019 and January 2020.

What happened

Mr S held a current account and savings account with RBS. In March 2019, RBS approved Mr S' loan application, lending him £1250 with a monthly repayment of £65.04 over 24 months.

Mr S maintained these monthly repayments and in September 2019, he applied for second loan to refinance his debt. RBS approved this application, lending Mr S £8,500 with a monthly repayment of £199.89 over 60 months. As part of this second loan, Mr S's remaining balance on his first loan was cleared.

Mr S maintained these monthly repayments and in January 2020, he applied for a third loan to again refinance his outstanding debt. RBS again approved this application, lending Mr S £17,000 with a monthly repayment of £328.23 over 96 months. As part of this third loan, Mr S's remaining balance of his second loan and his outstanding overdraft was cleared.

But shortly after this loan was approved, RBS wrote to Mr S explaining his current and savings account would be closed. And due to this, he admitted to his family that he'd been suffering with a gambling addiction and this is why he'd been applying for loans. Mr S's mother complained to RBS on Mr S' behalf about this. For ease of reference, I've referred to both Mr S and his mother, who is acting as his representative, as 'Mr S' throughout this decision.

Mr S was unhappy with RBS' decision to approve the three loans. He thought it should've been clear to RBS that the loans were unaffordable and that he was suffering with a gambling addiction at the time. Mr S explained how the debt he'd built up had impacted his mental and physical health and he thought RBS were responsible for this. So, Mr S wanted the interest applied to the loans to be refunded to him.

RBS responded and didn't uphold Mr S' complaint. They recognised the impact Mr S' debt had on him and apologised for any upset Mr S had been caused. But they didn't think their decision to approve the loans had been irresponsible. RBS explained they'd taken into consideration the information Mr S supplied in his online application, the way he'd managed his previous loans, the reason for the loan and his credit file when determining whether the loans were affordable. And having done so, they didn't think there was any information suggesting the loans should be declined.

They also recognised Mr S was suffering with a gambling addiction at the time but explained they hadn't been made aware of this so weren't able to take that into account. So, they didn't think they'd done anything wrong and didn't think they needed to do anything more. Mr S was unhappy about this, so he referred his complaint to us.

While Mr S' complaint was with our service, it was confirmed that both his outstanding overdraft and loan with RBS had been settled in full to prevent any further harm to his mental health.

Our investigator looked into the complaint and didn't uphold it. She thought the checks RBS completed before approving loan one were proportionate to the amount Mr S received and his income. So, she didn't think RBS had done anything wrong when approving this loan. But she didn't think RBS completed proportionate checks for loans two and three, considering the size of the loans and how closely together they were provided.

But she explained for our service to agree the interest of these loans should be refunded, she'd need to be satisfied that, if RBS had completed further checks, the information these checks provided would've more likely than not led RBS to declining the loans. And she didn't think this was case after considering Mr S' credit file and his bank statements from that time. While she didn't dispute Mr S was suffering with a gambling addiction at the time, she didn't think this was clear from Mr S' statements as there were virtually no gambling transactions present. And she also noted Mr S had been able to maintain payments to each loan before he complaint. So, she didn't think RBS needed to do anything more.

Mr S didn't agree. He provided evidence to show he was registered with organisations set up to help those suffering with gambling addictions so, he was unable to set up gambling accounts. He said this is why no gambling transactions showed and instead there were transfers to others to place bets for him. He didn't think it was fair that RBS failed to notice this and consider this when lending to him. Mr S also didn't think it was fair for RBS to close his current and savings account so soon after approving his third loan. He didn't think this made sense if they were satisfied he was suitable for additional lending.

Our investigator explained she had only considered Mr S' complaint about the lending of the loans and it was agreed that a separate complaint would be set up to investigate Mr S' concerns about his account closures. And she also explained her view remained the same as, although she understood Mr S was suffering with a gambling addiction at the time, she didn't think RBS were, or could've been, reasonably aware of this. Mr S didn't agree, so the complaint has been passed to me for a decision.

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 done so, I'm not upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

First, I want to recognise the impact this complaint has caused Mr S. I recognise Mr S has been suffering with a gambling addiction and he relied on the loans provided by RBS to supplement this. And I appreciate how worrying and upsetting it would've been for Mr S when he discovered his accounts were due to be closed and the impact this had on his mental and physical health. As Mr S used much of the loan amounts he was provided by RBS to maintain his addiction, and in the end became unable to afford the repayments, I can understand why Mr S holds RBS responsible for much of the upset and suffering he's been caused and feels they should compensate him for this.

But for me to say RBS should refund Mr S the interest attached to his loans, or compensate him for the upset he's been caused, I need to be satisfied HSBS failed to make proportionate checks before approving his loan applications or failed to assess the information these

checks provided fairly. And if this is the case, I also need to be satisfied the new information proportionate checks would've provided would more likely than not have led RBS to declining the loans. And in this situation, I don't think that's the case.

Before I explain why I've reached my decision, I think it would be useful to explain what I've been unable to consider. I'm aware Mr S is also unhappy about RBS' decision to close his accounts. This complaint is being investigated by our service under a separate complaint reference, so I haven't considered this as part of my decision.

There aren't a set amount of checks a lender needs to complete before deciding to lend to a customer. But these checks must be proportionate to the loan a customer is being provided and must factor in information such as customer income to satisfy the lender the loan is affordable.

RBS have confirmed each loan Mr S took was applied for online. So, the loans were taken on an unadvised basis. And they've explained they are unable to provide a copy of the credit report they would've seen when they approved each loan as this was done using an automated process. But they've confirmed Mr S' credit report was considered for each application, alongside his net monthly income, residential status, reason for the loan and for the final two loans, the maintenance of his previous loan accounts. And through this process, each loan was deemed to be affordable.

For loan one, I can see Mr S stated his net monthly income was £1,400 a month and he was living with his parents. Although RBS were unable to provide a copy of the credit report information they saw, Mr S has provided me with a copy of his credit file which I'm satisfied provides me with the information RBS would've seen at the time. And this showed that Mr S had only one other open credit agreement, with a monthly payment of £71 that had been maintained well with no late or missed payments.

So, I don't think there was any information to suggest loan one was unaffordable to Mr S. And I'm satisfied these checks were proportionate, considering the amount of the loan and the monthly repayment to Mr S' monthly income. Because of this, I don't think RBS need to do anything more for loan one.

I've then turned to loan two. This loan was taken exactly six months after loan one. And the purpose of this loan was to consolidate Mr S' existing debts which included the outstanding balance to loan one. I can see Mr S stated his net monthly income had increased to £1600 at this point. And I've seen RBS completed the same checks and followed the same process to approve the loan as they did for loan one. But I don't think these checks were proportionate on this occasion.

Mr S applied for a loan of £8,500 only six months after taking the first loan. I think this is a substantial increase and suggested Mr S was relying on credit at that time. I'm also aware only three months before, Mr S successfully applied for an arranged overdraft facility of £5,000 which I think further supports this suggestion. So, I think RBS should've asked further questions to ensure this loan was affordable, such as requesting or purposefully analysing his recent bank statements. But RBS have confirmed they didn't do so on this occasion.

But as I've explained, to say RBS need to refund the interest for this loan or compensate Mr S, I also need to be satisfied if they had asked further questions, their decision to lend would've been different. And I don't think it would've been. I've seen Mr S bank statements before he applied for this loan. And I've seen that although Mr S did utilise his overdraft facility, he came out of this in early September. Although Mr S was suffering with a gambling addiction at the time, I don't think this would've been identifiable as there was only one recognised gambling transaction per month showing on his statements. The statements did

show several bank transfers to other accounts but customers are able to use their account as they wish so I wouldn't expect RBS to automatically assume these transactions were for gambling purposes unless Mr S made them aware they were. And Mr S didn't do so. So, I think this suggested Mr S was able to manage his finances well.

This would've been further supported by his credit file, as all of his outstanding credit accounts were being maintained well with no late or missed payments. And finally, Mr S confirmed the loan was to refinance his existing debt, meaning his monthly payment from loan one would stop. And his other account was due to settle in two months, saving a further £71. Because of this, considering Mr S' net income alongside his residential status and existing financial commitments, I don't think there would've been enough information available to RBS from further checks that should've made them realise the loan was unaffordable. Because of this, I don't think they need to do anything more for loan two.

Finally, I've then thought about loan three. This loan was taken just under four months after loan two. And the purpose of this loan was again to refinance Mr S' existing debts. I've seen Mr S stated his monthly income had again risen to £1,700 a month and RBS completed the same checks as they completed for loan two. RBS have said as the loan was for significantly more, this time £17,000, Mr S' previous bank statements would've been considered before the loan was signed off. While I can see this loan received manual sign off from a member of staff, rather than through the automated process, I've seen no evidence to show bank statements were definitely considered. Because of this, and the high value of the loan compared to Mr S' income and the proximity of the application compared to loan two and Mr S' overdraft facility, I don't think I can say the checks RBS completed were proportionate.

But again, I then need to consider whether further checks would've supplied RBS with information that should've changed their lending decision.

I've seen Mr S bank statements before the loan was approved. And they show Mr S was using the majority of his arranged overdraft facility. So, I can appreciate why Mr S thinks this should've suggested to RBS that he was in financial difficulty. But I also need to consider the reason for Mr S wanting to take the loan. And RBS have confirmed the loan was again taken to refinance Mr S' outstanding debts. I've seen loan two was settled using loan three and Mr S overdraft was also cleared. So, I think the loan satisfied it's intended purpose and clear Mr S debts at the time.

And I don't think Mr S being in his arranged overdraft means RBS should definitely have declined the loan. The overdraft Mr S used was an arranged facility, meaning RBS had agreed for Mr S to use this amount. And I've seen no evidence to show Mr S exceeded this facility and entered into an unarranged overdraft. So, I don't think use of this facility should've led to RBS automatically declining the loan.

I also don't think RBS would've been, or should've been, aware of the gambling addiction Mr S was suffering with at the time. As I've already explained above, almost none of the transactions shown on Mr S' statements are recorded as gambling transactions. While I'm aware Mr S was transferring money into other accounts to gamble, due to him signing up to a gambling prevention website, I don't think RBS could've been reasonably aware of this.

And even if RBS did question the reason for transfers into other accounts, they would've been unable to compel the owners of those accounts to provide the reason for these transactions. As Mr S didn't declare his gambling addiction to RBS at the time of the application and was requesting the loan to help what he knew to be his financial situation, I also think, on the balance of probability, it's unlikely Mr S would've told RBS these transfers were to gamble if he'd been asked. And in any event, a customer is entitled to use their

account however they see fit so I wouldn't have expected RBS to request this sort of information from Mr S.

So, I don't think RBS lending decision should've changed if they'd made further checks. I think the monthly repayment seemed affordable, compared to Mr S declared net monthly income, existing financial commitments and residential status. Because of this, I don't think RBS need to do anything more for loan three.

I understand this isn't the outcome Mr S was hoping for and I appreciate it will come as a disappointment. While I recognise that with hindsight, and a complete insight into Mr S' situation at the time he applied for the loans, they would be deemed to be unaffordable. But I don't think RBS could've been reasonably aware of this when they approved them. And I can only base my decision on what RBS would've known at the point of lending.

My final decision

For the reasons outlined above, I don't uphold Mr S' complaint about The Royal Bank of Scotland Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 23 December 2021.

Josh Haskey
Ombudsman