

Complaint

Mr S has complained about an overdraft National Westminster Bank Plc (“NatWest”) provided to him. He says the overdraft was irresponsibly provided.

Background

NatWest provided Mr S with a student overdraft for £100 in September 2015 the limit on the facility was increased to £500 in October 2015 and then £2,000.00 in January 2016. The overdraft was to be interest and fee free for at least the duration of Mr S’ studies provided he stayed within his limit.

One of our adjudicators reviewed what Mr S and NatWest had told us. And he thought NatWest hadn’t done anything wrong or treated Mr S unfairly. So he didn’t recommend that Mr S’ complaint be upheld. Mr S 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 S’ complaint.

NatWest needed to make sure that it didn’t lend irresponsibly. In practice, what this means is NatWest needed to carry out proportionate checks to be able to understand whether Mr S could afford to repay before providing him with an overdraft and his limit increases. 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.

NatWest says it agreed to Mr S’ application after it carried out a credit search and obtained some information about his income and expenditure. On the other hand, Mr S says NatWest didn’t do anything at all before agreeing to lend to him.

I’ve carefully thought about what Mr S and NatWest have said.

I have to start by saying that Mr S wouldn’t have had to pay any interest or charges for some time provided that he kept within his overdraft limit. I think this is important context to bear in mind in this particular case.

I know Mr S says that no checks were carried out. But I can see that Mr S was asked for some information on his income and expenditure. NatWest has also provided a record of what its credit checks showed too. And I'm satisfied that the credit search NatWest carried out showed Mr S had two defaulted accounts and a County Court Judgement issued against him, which suggested he'd had previous difficulties repaying credit. So I can understand why Mr S feels NatWest shouldn't have lent to him.

That said, I'm mindful of what the credit search carried out suggested about Mr S' circumstances at the time and that he was entering full time education. In these circumstances, where he was unlikely to earn for some time, it's difficult for me to agree that agreeing this overdraft was wholly unreasonable given it would provide him with some breathing space and was a far better alternative to any other alternative sources of credit Mr S would more likely than not have turned to.

So overall while I do have some concerns that NatWest doesn't appear to have placed much weight on Mr S' credit file at the time, bearing in mind the circumstances and the type of facility it agreed to, I don't think that NatWest treated Mr S unfairly or unreasonably when providing him with an interest free overdraft. And I'm not upholding Mr S' complaint.

I appreciate this will be very disappointing for Mr S. 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 S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 15 March 2022.

Jeshen Narayanan
Ombudsman