

The complaint

Mr W complains that National Westminster Bank Plc (NatWest) made an irresponsible lending decision when providing him with a personal loan.

What happened

In November 2018 Mr W took out a personal loan with NatWest for £6000. The loan was to be repaid over a period of 60 months with a monthly repayment of £156.10, giving a total amount repayable of £9366. This loan was taken out after Mr W had recently increased the level of his overdraft facility with NatWest three times in short succession. This service also looked at the lending decision made on the overdraft under a separate reference.

In February 2020, Mr W complained to NatWest about its decision to provide him the personal loan. He felt it was clear from his account usage at the time that he was spending more than his income and there was a number of gambling transactions on his account. He felt this should have given them cause to question if the loan was affordable.

NatWest said the loan was applied for online and the checks carried out where automated. Mr W met its lending criteria when the loan was applied for and his application successful. It didn't agree it had acted irresponsibly or that it would have acted differently had other information about Mr W's spending been available.

Our investigator looked at Mr W's complaint and didn't think NatWest had done anything wrong. He reviewed the checks carried out when the loan was taken out and didn't think these demonstrated anything to suggest the loan was likely going to be unsustainable for Mr W. The credit check information didn't show any signs of concern and the income expenditure completed – although based on estimated typical living cost values – showed that Mr W would have a disposable income each month after the loan repayment had been made.

As the income expenditure was based on typical values and not Mr W's specific income and expenditure our investigator also reviewed the bank statements for the months preceding the application. He could see there was several gambling transactions on the account but this amounted to no more than 5% of the monthly disposable income spending, so he didn't think it was reasonable to expect this to cause concern or prompt further checks. He also noted a large number of cash withdrawals from the account and Mr W said this was primarily used for gambling as well. The investigator was grateful that Mr W was able to communicate honestly to him about the spending, but he didn't think it would have been fair to expect NatWest to be aware of the purpose of these withdrawals at the time.

Overall he didn't think NatWest lent to Mr W irresponsibly due to the level of gambling activity visible on the bank statement so even if it had manually reviewed this information, he didn't think it had done anything wrong.

Mr W disagreed. He thought the rate at which he spent his available overdraft limit ahead of the loan application should have been given more consideration and felt this demonstrated he was struggling to meet his financial commitments.

Our investigator said that he had considered the use of the overdraft but didn't think it changed his opinion. He thought the fact Mr W had remained within his agreed overdraft limit showed his spending wasn't necessarily out of control. He also said the loan was taken to consolidate £2000 of the overdraft debt and because of this, he didn't think it meant NatWest needed to do more with its checks or that it was irresponsible when providing the loan.

Because Mr W disagreed still, the complaint has been passed to me for final 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.

I've decided not to uphold this complaint for much the same reasons as our investigator. I know this will be disappointing for Mr W, but I'll explain why I've reached this decision.

This service has an established approach to irresponsible/unaffordable lending complaints which can be found on our website and I've followed this approach when considering Mr W's complaint.

The rules and regulations relevant at the time NatWest provided Mr W with the loan are set by the FCA in the Consumer Credit Sourcebook (CONC) rules. These required NatWest to carry out an assessment of credit worthiness with reasonable and proportionate checks to determine whether Mr W could afford to repay the loan in a sustainable way. These checks needed to be borrower focused, so giving consideration to whether making the repayments in a sustainable way could result in difficulties to Mr W.

There is no set list of checks defined as reasonable and proportionate and as these checks need to be borrower focused, it follows that this could be different from one person to the next.

NatWest feels the checks it carried out were reasonable and proportionate and that from these, it was clear the loan was affordable to Mr W. So they believed he'd be able to meet the repayments without it being likely to cause difficulties or harm.

I've thought about whether the checks carried out by NatWest were reasonable and proportionate based on the size of the loan and its duration. Mr W was looking to borrow a relatively large amount over a period of five years – so it was a significant commitment. But this was also taken with a view to reduce the overall balance of Mr W's overdraft and had the benefit of doing this with a set monthly repayment.

NatWest relied on its automated checks to determine whether it was prepared to lend to Mr W, reviewing his application against its lending criteria. It had the benefit of being able to apply what it knew about his account management as well as the credit score information returned with the check and this all fed into the answer. But it didn't manually review any of the information and this was all done with automated checks. Even the income expenditure was based on typical estimated values. But I think based on the size of the loan, the reduction in the overdraft debt and term of the borrowing, that the checks carried out were reasonable and proportionate.

Mr W points out that his spending behaviour prior to the loan application being made should have been a flag to the loan not being affordable. He feels with three successive overdraft balance increases in this short space of time, it was clear he was spending more than his income. As I've said the application and its checks were automated with the loan agreement being taken out online and I think these were reasonable. But for completeness, as our investigator did, I've considered whether further with the checks would have shown the loan wasn't affordable.

I can't know what checks NatWest might have decided to do if it felt this was needed, but as it had access to Mr W's bank statements, it feels reasonable to have reviewed the information on these too. But I think even if NatWest had gone further and reviewed the information on Mr W's bank statements manually, it would have shown the loan was likely affordable to Mr W.

As our investigator has said, there was some transactions on Mr W's account which related to online gambling. But the value of these compared to the overall available expenditure was small with less than 5% of the monthly disposable income being spent on these. And although there was a considerable amount of cash withdrawn from the account over this time, I don't think it would have been clear what the purpose of these withdrawals was. I understand Mr W has said the majority was used for gambling transactions and I'm grateful for his honesty here, but I don't think NatWest would have been aware of this at the time.

Overall the statements showed that Mr W was able to stay within his agreed overdraft limit and pay his bills with a disposable income left over. The loan was taken to reduce his level of overdraft as well as fund a number of other things and he wasn't increasing his level on debt by the full amount.. So together with the credit check information and income expenditure information gathered by NatWest, I think further checks would have supported the loan was likely affordable. And NatWest hasn't acted irresponsibly when providing the loan.

I appreciate Mr W has later found himself in financial difficulties and NatWest has helped with this by arranging repayment plans as well as providing details for support with gambling and problem spending. I think it's acted fairly here and I don't think it needs to do anything else in relation to the loan application.

My final decision

For the reasons I've explained above, I don't uphold Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 26 April 2022.

Thomas Brissenden
Ombudsman