

The complaint

Ms M complains that National Westminster Bank Plc (“NatWest”) lent irresponsibly to her on three occasions.

What happened

Ms M says she took out three loans with NatWest and believes they were never affordable for her. She took out a loan in March 2016 of £10,750 for 27 months, making monthly repayments of around £439. In September 2016 Ms M took out a loan of £7,400 for 60 months, making monthly repayments of around £175. And in September 2017, Ms M took out a loan of £14,500 for 60 months, making monthly repayments of around £366.

Ms M says she was consistently using her overdraft facility each month to buy necessities. She also says she was in significant debt with other third-party credit providers where she was often making late payments, or the minimum repayments required.

Ms M also says she has a mental health condition and keeping up with the payments exacerbated her mental health. The combined debts she says she had, left her feeling she had no way out of the situation and by November 2019, Ms M says she had loans and overdraft debts totalling around £10,400.

In November 2019, NatWest got in touch with Ms M about some recent missed payments and asked her to get in touch with them so they can work together to put in place a repayment plan.

She says NatWest continued to add interest and charges and the total debt was around £12,250 when she says they arranged for a debt recovery company to recover repayments in May 2020.

Ms M complained to NatWest as she wanted them to remove all markers from her credit file and refund any applicable interest and charges, as well as pay compensation for the worry and distress this had caused her.

NatWest responded to Ms M saying that they took into account the information provided by Ms M alongside internal and credit reference agency information when lending and found the loans met their criteria. They said they have a strict lending criteria as part of their application process and that they need to assess whether the new borrowing would be affordable. They also say they checked their records and couldn't see any evidence Ms M informed them of her health condition.

Ms M, unhappy with NatWest's response, referred her complaint to our service. During our involvement, NatWest made an offer to Ms M of £300 which our service communicated to her. Ms M declined the offer. Our investigator found that NatWest didn't need to take any action to resolve the complaint over and above the £300 they've already offered. The investigator looked into what checks and information NatWest should have reviewed at the time of each loan application and concluded they wouldn't have reasonably foreseen any financial difficulties when approving the loans. The investigator also found that from

everything he had seen, NatWest's approach was in line with what he'd expect when trying to collect an unpaid loan.

Ms M disagreed with the investigator's findings. She explained that due to her mental health in 2017, she was in a vulnerable position and that NatWest had a duty of care to ensure she was suitable and able to afford the repayments. She also says, among other things, that she was highly emotional and also mentally unwell at the time and did not truly understand the financial impact paying back the loan would have.

The complaint has now been passed to me to decide on.

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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach while deciding Ms M's complaint.

NatWest needed to make sure it didn't lend irresponsibly. This means it needed to carry out proportionate checks to satisfy itself that Ms M could afford to repay the amount it was lending. A proportionate check is dependent on a number of factors including – but not limited to – Ms M's particular circumstances (e.g. her financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit obtained.

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 that information – 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, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay. I've carefully thought about what this means for Ms M's case.

In this case, NatWest lent to Ms M on three occasions. The first two loans, the purpose was mainly recorded as debt consolidation. The third loan was recorded as 'other', and NatWest say it was also used to absorb an existing loan. I think, given that her second loan was repaid in full around the time the third loan was taken out, I'm satisfied that it was partly for debt consolidation. The amounts borrowed varied from around £7,400 to £14,500.

NatWest says it agreed to Ms M's applications after carrying out credit searches and taking some income and expenditure information. On the other hand, Ms M says the loans were unaffordable and that she shouldn't have been lent to. She also says that due to her mental health condition at the time the third loan was approved, NatWest had a duty of care to ensure she was suitable and able to afford the repayments.

NatWest has provided details of Ms M's declared income and expenditure at each loan application and which they say they relied on when deciding to approve the loans. Having seen Ms M's statements in the lead up to the loans being provided, I don't think there was anything concerning during those periods. There wasn't anything in Ms M's transactions prior to the loans, which contradicted the income and expenditure figures NatWest say they had used as they were broadly similar. NatWest say they also carried out checks to gain an understanding of Ms M's credit history and her credit commitments. Ms M provided a copy of

her credit file for the service to review. I also hadn't seen anything in her credit file which I think should have prompted NatWest to act differently.

I think the checks NatWest say they had undertaken at each loan application were reasonable and proportionate in the circumstances and that it was fair to conclude that the loan repayments looked like they should've been affordable for Ms M based on the information it had gathered. I wouldn't have expected the information NatWest saw in its credit checks and on the information in the bank statements to have given NatWest any particular cause for concern.

Allowing for the fact that the loans were taken out for debt consolidation – in other words, Ms M said she would use the loans to repay existing debt – NatWest worked out that her disposable income met their criteria with no issues identified. I think in these circumstances NatWest was reasonably entitled to take a view that Ms M was borrowing specifically to help her manage her finances more responsibly and it looked like she ought to be able to afford to do so on the figures it worked out.

To sum up, I don't think there was enough in the information that NatWest could see (or should have looked at) that I think would've made it realise that Ms M couldn't afford to pay her loans in a sustainable way. I think the checks that NatWest carried out before it agreed to provide the loans were proportionate and that it was entitled to rely on the information it acquired which showed that the loans looked sustainably affordable for Ms M.

I've also looked at whether NatWest was aware or ought to reasonably have been aware, that Ms M could be in financial difficulties by reviewing her use of her account. And if so, whether it was appropriate for NatWest to apply any interest, fees and charges.

Once a lender is aware a borrower is experiencing financial difficulty, we would expect it to exercise forbearance and due consideration, in line with its regulatory obligations. Ultimately, we'd expect a lender to listen to a borrower, get an understanding of their circumstances and then assess the most appropriate way to move forward.

NatWest must also monitor their customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties.

I'm sorry Ms M later found herself in financial difficulty. I accept at times Ms M may have had to go into her overdraft. However, I also am mindful that the purpose of Ms M's loans were mainly to consolidate debt.

One of the ways in which a lender can provide forbearance and due consideration is by refinancing existing debt onto more affordable terms. So in this case, I think it's fair to say that NatWest supported Ms M by attempting to provide her with consolidation loans so she wouldn't need to rely on her overdraft facility as often. Having reviewed the account statements, I'm satisfied the rescheduled terms were affordable to Ms M. And by rescheduling the debt, this would have prevented further overdraft interest and fees being applied to the account.

In order to uphold this complaint I have to be able to say a lender acted unfairly or unreasonably in some way. And, in this case, I don't think they had. They did sufficient checks in the circumstances and made a fair lending decision based on the information it obtained. I'm also satisfied NatWest responded to Ms M with forbearance and due consideration once it was aware that she was in financial difficulty.

NatWest has said that Ms M first had a direct debit returned unpaid in October 2019. She was then transferred to a recoveries department and interest payments were frozen in February 2020.

I know Ms M's position did worsen after the third loan was approved and agreed. But this was after the decision to lend had already been taken. And it wouldn't be fair and reasonable for me to use hindsight here or say NatWest should have known this would happen.

In January 2021, NatWest say that their collections team were unable to come to a suitable arrangement with Ms M and so they passed her account to a third-party debt recovery company to act as their collection agent.

I'm sorry to hear Ms M had a mental health condition during the times NatWest lent to her, but it doesn't automatically mean that NatWest has done anything wrong. I can't see that NatWest was aware of this at the times her loans were approved, so I don't think it would be fair to ask NatWest to have reasonably acted on information they weren't made aware of.

I appreciate that my decision is going to disappoint Ms M. But I hope that setting out the reasons as I've done will help explain how I've reached my decision. NatWest has already made an offer to pay £300 to settle the complaint. Ms M should contact NatWest directly if she now wishes to accept this.

My final decision

For the reasons I've explained, I don't think NatWest needs to do anything to settle the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 7 July 2022.

Ronesh Amin
Ombudsman