

The complaint

Mr L complains that Barclays Bank UK PLC unfairly declined his application for an overdraft.

What happened

Mr L applied for a temporary overdraft of £2,000 on his bank account with Barclays. That application was declined, with Barclays saying it hadn't met the required internal credit score. Mr L appealed the decision, and after an underwriter's review of the application the appeal was also declined – with Barclays saying there was evidence of high interest external borrowing within the previous 12 months.

Mr L raised a complaint, as he couldn't understand why he had been turned down for the facility when he had a healthy amount of disposable income and a clear credit file. He added that he hadn't taken any high interest borrowing in the last 12 months, so didn't think the reason Barclays had given was correct. Mr L was planning to buy his first home and worried there was something recorded externally that might affect future applications for credit. In its response Barclays maintained it had acted in line with its lending policy, so Mr L referred the matter to our service for review.

Barclays told our investigator its risk assessment system had picked up on a payment being received from a payday lender within the 12 months before the overdraft request. The bank explained this could indicate financial difficulty and so lending would pose a much higher risk. Barclays also said its underwriter had commented the repayment source given by Mr L during the application was an upcoming tax rebate – which it didn't class as a guaranteed source of income. Both of those factors had contributed to Barclays declining the facility, though the bank added that its automated risk assessment system may have picked up other entries it considered were a risk to offering the lending facility to Mr L.

An investigator here thought the complaint should be upheld. His investigation showed that the 'evidence of high interest external borrowing within the previous 12 months' was in fact an £8 redress payment made by the administrator of a payday lender that had gone bust many years earlier. He didn't find any other evidence of recent high-cost borrowing in Mr L's bank statements or credit report. The investigator also listened to the information given by Mr L at the point of application and disagreed the tax rebate was given as the repayment source – though it was discussed. In his view, the information given showed Mr L had sufficient disposable income, and suggested he would be able to afford the facility.

The investigator thought Barclays hadn't satisfactorily explained the reasons for the decline, so he didn't agree the bank had acted fairly – and recommended £200 compensation for the worry caused to Mr L. Barclays didn't accept the investigator's view, and said it reserved the right to decline any application for lending it felt didn't meet its responsible lending criteria. The bank asked for an ombudsman to make a final decision on the matter, so the complaint was passed to me.

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 carefully reviewed everything, I'm upholding Mr L's complaint – and for much the same reasons given by the investigator. I also find the award recommended by the investigator amounts to fair compensation in the circumstances. I've explained why below.

Like most lenders, Barclays uses an automated credit scoring algorithm to help it apply its lending policy and process applications quickly. But this algorithm isn't the lending policy, it just flags potential risk indicators to the bank to help it make lending decisions in line with its policy. Barclays has said it reserves the right to decline any application for lending it feels does not meet its responsible lending criteria, even if the borrowing is seemingly affordable. The bank is of course free to set its own parameters on what level of risk it is willing to accept – but I have to be satisfied that it has treated its customer fairly and reasonably when assessing an application for borrowing. So Barclays needs to be able to show me it has fairly applied its lending policy. It can't reject an application for no reason.

When Mr L's application was initially run through the automated risk assessment system, it picked up on a potential indication from Mr L's bank account that high-cost lending had been taken in the previous 12 months – and so declined it for that reason. It's reasonable that Barclays' lending policy deems those that have taken high-cost credit recently a risk for further lending, as that activity could be an indication of financial difficulty. But the transaction in question wasn't evidence of recent high-cost lending – it was a credit for £8, from a payday lender that had gone into administration more than three years prior. So I'm not persuaded Barclays acted in line with its own lending policy, or treated Mr L fairly, when it declined his application on that basis (particularly following a review from an underwriter).

Barclays later argued that another reason the application had been declined was the repayment source given – and said a tax rebate wasn't a guaranteed source of income. It's reasonable that Barclays won't lend in circumstances where the repayment source isn't guaranteed – any lending has to be affordable in a sustainable way. But having listened to the call during which the application was made, Mr L didn't give the tax rebate as the source of repayment – though it being late was the reason he was seeking the added security of an overdraft. So I find Barclays didn't act in line with its lending policy, or treat Mr L fairly, when it declined the application for that reason.

Having reviewed Mr L's bank statements and credit report it's clear he had sufficient disposable income (more each month than the overdraft amount he was seeking) and a clear credit file – with no evidence of existing debts elsewhere at the time of the application. I appreciate most months he 'spends what he has' – but I can also see he invests large amounts each month, and a lot of the spending is on leisure activities that could easily be moderated if needed. So I'm persuaded the borrowing would likely have been affordable.

I accept it could be reasonable for Barclays to have declined the application for not meeting another of its responsible lending criteria, even if the borrowing seemed affordable. But, after the previous reasons given were debunked, the bank hasn't been able to explain why it declined the lending – except to, effectively, say 'the computer may have had other reasons'. I can't accept that as proof Mr L's application was assessed fairly, particularly given the algorithm has been shown to be fallible. Barclays ultimately doesn't seem to know why it declined Mr L's application for an overdraft, and so I'm not persuaded it applied its own lending policy correctly here or treated him fairly.

Mr L has described his worry about being declined for the overdraft and not knowing why. I can understand why he would have been concerned that something was recorded somewhere which might also affect a future mortgage application. I wouldn't necessarily expect a business to go into lots of detail around the reasons for deciding not to lend, as the

various risk parameters it sets would be commercially sensitive and open to manipulation if known. But the fact that Barclays can't explain it to us would naturally leave a lingering doubt over what happened. Mr L has speculated that Barclays discriminated against him in some way, which is why it has been evasive with its explanations. But I haven't seen any evidence that's the case here.

I've thought carefully about what Mr L has told us about the effect this has had on him – but I'm not persuaded the practical or emotional impact falls into the range he's indicated, or is commensurate with the published examples illustrating that level of compensation. He no longer needs the overdraft – and whilst he might have wanted the security of having it at the time, he was able to manage without undue hardship. Mr L was also pretty sure Barclays had made a mistake, and us issuing our findings a short time after he referred things to our service has helped to limit the length of time any concern was experienced. I don't doubt he was worried and frustrated, but I consider an award of £200 fairly compensates the impact.

Putting things right

For the worry and frustration Barclays' errors caused Mr L, bearing in mind our published guidance on making awards for distress or inconvenience, I consider £200 to be fair compensation in the circumstances. I will also be directing the bank to remove any internal and external records (for instance, with the Credit Reference Agencies) of the application, given I'm not satisfied it was assessed fairly – to ensure it doesn't influence future lending decisions.

My final decision

My final decision is I uphold Mr L's complaint about Barclays Bank UK PLC, and direct the bank to:

- pay him £200 compensation; and
- remove all internal and external records of the application.

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

Ryan Miles
Ombudsman