

The complaint

Mrs B complains that Barclays Bank UK PLC have irresponsibly lent to her.

What happened

Mrs B says she was pre-approved for a Barclays unsecured loan of £37,800 in May 2015. She said that she doesn't think that Barclays carried out reasonable checks as her monthly income was approximately £1,000, but the loan repayments were nearly £750 a month and she said they irresponsibly lent to her. Mrs B made a complaint to Barclays

Barclays did not uphold Mrs B's complaint. They said that they had carried out an income and expenditure assessment at the point of sale as well as six months prior to the loan commencing. They said they reviewed her sole current account with them six months prior to approving the loan, which showed an average monthly income of £2,776.73 for Mrs B and an average monthly outgoing of £1,123.51 which left her with a monthly disposable income of £1,652.72, which they said made the loan affordable as the contractual monthly payments were £749.68. Mrs B brought her complaint to our service.

Our adjudicator upheld Mrs B's complaint. She said Mrs B was receiving two incomes into her sole bank account, around £989 for her personal wages and around £1,692 for her husband's wages. She said although both incomes were being received into the sole account, it would not be reasonable to use her husband's income to look at the affordability of the loan, as it would be solely Mrs B's responsibility to pay this back, and her husband's income would not be a reliable source of income for her to utilise, therefore the loan repayments for this account would be unaffordable for her when taking into consideration existing mortgage repayments and other living expenses.

Barclays asked for an Ombudsman to review the complaint. They made a number of points. In summary, they said that on reviewing the income received into the account, as it was a sole account it could have been Mrs B having two jobs, receiving two separate salaries. The income amounts were received on separate dates and did not specify whether either amount was being earned by or paid to her husband. They said Mrs B was paying a higher sum on the outstanding credit card balances than the loan payments, plus the interest rate of the loan was considerably less than the interest added to the cards.

Barclays said in addition to this, part of the loan money was used to repay Mrs B's husband's outstanding credit agreements. They said as the application for the loan was approved via the Barclays mobile banking application, the decision to lend the money was based on the information supplied by Mrs B so she must have confirmed the monthly repayment was affordable.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint."

As the loan Mrs B is complaining about was approved in May 2015, Barclays have been unable to provide me with some of the information that I've asked them due to the time that's passed. It's understandable why there mightn't be as much information retained by them here when the events happened over seven years ago. But that means I have to consider the evidence I do have available to me.

Before agreeing to approve the credit to Mrs B, Barclays needed to make proportionate checks to determine whether the credit was affordable and sustainable for her. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Barclays have done and whether I'm persuaded these checks were proportionate.

I asked Barclays what borrower focused checks they completed prior to approving the loan to Mrs B. Barclays said that the checks with credit reference agencies showed no secured balance, a nil unsecured balance, £20,200 unsecured revolving balance, and the worst status showing was six months on her credit file, but there were no defaults were showing on her credit file.

So I've considered whether the checks that Barclays completed were proportionate or not. And I'm persuaded that they weren't, and I'll explain why. Mrs B, according to Barclays checks had £20,200 unsecured revolving balance, which would typically be for credit cards/overdrafts. But they loaned her £37,800 for debt consolidation purposes when Mrs B did not have £37,800 of debt in her own name to consolidate.

So I'm persuaded that as part of a proportionate check, Barclays should have investigated why Mrs B was applying for £17,600 more than she needed to clear her debt when the purpose of the loan was debt consolidation. But there are other factors which I'm persuaded Barclays should have looked into further based on Mrs B's sole account statement.

In Barclays final response letter, they've said they reviewed her sole current account with them six months prior to approving the loan, which showed an average monthly income of £2,776.73 for Mrs B and an average monthly outgoing of £1,123.51. And I accept what Barclays say regarding that Mrs B could have had two jobs and therefore two incomes crediting her account. There is no indication that a credit is from another party such as her husband. But I'm not persuaded this tells the whole story of the account.

I say this because looking at the three month period prior to the loan being approved, the balance of the sole account was just over £6,265 on 27 February 2015. But on 29 May 2015, a few days before the loan was credited to the account, the account balance was just over £1,694. So even if Barclays thought the income and the outgoings were all from Mrs B, they should have been aware that in the three months prior to the loan being approved, there were much more outgoings than income. This should have prompted them to make further checks to find out why this was and if the loan would be affordable and sustainable for Mrs B.

I'm persuaded that if Barclays would have made further proportionate checks based on what they knew at the time, then it's likely that they would have found out that it wasn't just Mrs B's salary which credited the account and that in all likelihood, it would be unlikely that Mrs B would not be able to afford or sustain a monthly repayment of £749.68 a month, when her salary from work was around £1,000 a month. So I would not expect them to approve the loan for £37,800 here.

I've considered what Barclays have said about Mrs B paying a higher sum on the outstanding credit card balances than the loan payments, plus the interest rate of the loan was considerably less than the interest added to the cards. While this may be true, and I have no reason to doubt this, it does not automatically mean that the £37,800 debt was affordable or sustainable for Mrs B, especially being given significantly more than her outstanding unsecured balances at the time. And it would not negate the requirement for Barclays to make proportionate checks for the loan they approved. Given the amount of debt they approved nearly doubled her outstanding debt, it would have been proportionate for them to make more thorough checks, in addition to the reasons I've given above.

I've considered what Barclays have said about part of the loan money being used to repay Mrs B's husband's outstanding credit agreements. I'm not sure that Mrs B told them this prior to the loan though as they said she applied through their application. But even if Mrs B did pay off her husband's credit agreements, she is not responsible for debt which is in other people's names. The loan should be affordable based on her circumstances. As her husband would not be responsible for her loan repayments – even if she did pay off some of his credit agreements with the loan, this is why, as part of a proportionate check when they loaned her £17,600 more than her outstanding debt, that her circumstances would have come to light if Barclays would have asked her what the surplus money was for. The application was in Mrs B's name only and it was not a joint loan.

Mrs B has also told us that Barclays were aware of the income she earned as she and her husband had applied for a mortgage with them, so they were given the details of this. I asked Barclays about this, but they told me that due to the time that has elapsed, they had no record of a mortgage application from Mrs B in 2015. So I'm unable to say one way or another what they should have been reasonably be aware of in relation to the income of Mrs B here.

Based on the factors I've already given above, I'm not persuaded the checks carried out by Barclays were proportionate. I'm persuaded that further checks would have shown that Mrs B earned approximately £1,000 a month and therefore 75% of her income being paid towards an unsecured loan would be likely to be unaffordable and not sustainable for her, especially as Barclays were increasing her overall unsecured debt by nearly double (and this was more than three times her net annual income). I'm satisfied further checks would have shown that Mrs B was given a significant amount of money more than what she needed for the purpose of the loan. So I'm not persuaded that Barclays made a fair lending decision here. So I intend to ask them to put things right.

Mrs B has sent our service a letter that Barclays sent her on 28 February 2020. This says that following a review of their recent operating procedures they identified that for customers falling behind on their loan agreements, that they did not meet their expected standards for assessing customers circumstances or engaging with them and as a result of this they would be refunding interest, fees and charges which were applied to the account during the period in which they may not have provided the service they should have done. The refund was for £1,137.03. So if Barclays have already refunded some of the interest, fees and charges, I intend to ask them to rework the account removing all interest and charges that have been applied which haven't already been refunded, as it would not be reasonable to ask them to refund more interest, charges and fees than there had been applied to the account."

I invited both parties to let me have any further submissions before I reached a final decision. Mrs B responded to the provisional decision and she said there was nothing more to add. Barclays responded to the provisional decision and they said that they are happy to refund the interest charges relating to Mrs B's loan to reduce the outstanding balance. They said the debt remains with a third party, and she will have to make arrangements with them regarding repayment of the updated balance.

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 considered what Barclays have said about how they would carry out the redress. But this is different to what I set out in my provisional decision. I asked our investigator to respond to Barclays to let them know this is not what I was intending to ask them to do and reiterated the redress as set out in my provisional decision. Barclays did not provide any response after this, before the deadline.

In summary, Barclays response hasn't changed my view and my final decision and reasoning remains the same as in my provisional decision.

Putting things right

In my provisional decision I said I intend to uphold this complaint. I said I intend to ask Barclays Bank UK PLC to do the following:

Barclays should arrange to transfer any debt back to themselves if it has been passed to a debt recovery agent;

End the agreement and rework the account removing all interest and charges that have been applied (which haven't already been refunded);

If the rework results in an overpayment, this should be refunded to Mrs B along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Barclays should also remove all adverse information regarding this account from Mrs B's credit file;

Or, if after the rework there is still an outstanding balance, Barclays should arrange an affordable repayment plan with Mrs B for the remaining amount. Once Mrs B has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

I'm still satisfied this is a fair outcome for the reasons given previously.

**If Barclays considers that they're required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mrs B how much they've taken off. They should also give Mrs B a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.*

My final decision

I uphold this complaint. Barclays Bank UK PLC should settle the complaint in line with the instructions in the "putting things right" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 20 January 2023.

Gregory Sloanes
Ombudsman