

The complaint

Mrs S says National Westminster Bank Plc irresponsibly lent to her.

What happened

Mrs S applied for a credit card online from NatWest on 6 December 2021. She was given a credit limit of £6,750. The account defaulted on 8 June 2022 with a balance of £6,636.29.

Mrs S wants the outstanding balance to be written off as she should have never been approved. She says had NatWest looked into her circumstances properly it would have been obvious she had no disposable income and could not afford this card.

Our investigator did not uphold Mrs S's complaint, saying NatWest's checks were proportionate and it made a fair lending decision based on the information it gathered. Mrs S disagreed and asked for an ombudsman's review.

I reached a different conclusion to the investigator so I issued a provisional decision to give both parties a chance to comment. An extract from my provisional decision follows and forms part of this final decision.

Extract from my provisional decision

NatWest says that it carried out a full credit assessment including credit scoring as well as considering information from Mrs S's application when making its decision. It says that Mrs S declared a net monthly income of £3,000 a month, that she was married and had two dependents. It deducted £924 for living costs and £581 for existing unsecured credit commitments. It allowed £236 to support the repayments of this new card and so concluded the credit would be affordable. NatWest explains its system is highly automated and designed to deal with a large volume of mass markets applications. Its checks for Mrs S showed no triggers like gambling or financial difficulties and so her application did not require any manual income verification.

I appreciate that NatWest's lending decision was automated, but this does not mean that obvious available information should be ignored. NatWest had an excellent source of data about Mrs S's financial circumstances – its own internal records. Mrs S had an existing relationship with NatWest as her main current account was with NatWest. This information was easily accessible and clearly relevant to her credit card application, and I think that NatWest should have taken this into account.

From the bank statements NatWest has provided, I can see that it held conflicting information about Mrs S's circumstances. In the three months before Mrs S's application her average monthly salary was £971.05 and there was £140.60 of benefit income. This meant her total income was significantly lower than her declared income of £3,000. Had NatWest used the actual income data it already had its affordability assessment would have shown Mrs S to have no disposable income.

In addition, the statements I have seen show Mrs S was persistently reliant on her overdraft

facility, and had been for over two years, even after the monthly credits onto her account from her partner. They also show Mrs S had recently taken out two high-value loans in September and October 2021. The first was for £15,000 and the second was for £20,000 – it was used in part to settle the first. So there was recent evidence Mrs S was most likely in cycle of borrowing to repay and she was increasing her overall indebtedness. In the round I think there was sufficient evidence for NatWest to realise that extending more credit to Mrs S would most likely lead to her again needing to borrow to repay, or to suffer some other adverse financial consequences – as went on to happen.

Our investigator observed that Mrs S used this card for balance transfers so it is likely she was saving money on interest payments that would have been due elsewhere. But NatWest did not know how Mrs S would use the £6,750 credit it gave her, so I have not considered this retrospective analysis when reaching my conclusion.

It follows I currently think NatWest was wrong to give this card with a £6,750 limit to Mrs S.

I then set out what NatWest would need to do to put things right.

NatWest disagreed with my findings. It said it remained of the view the card was affordable for Mrs S, and it was regrettable she had not declared accurate information about her income. It reiterated its process is designed for the mass market and is largely automated, it is not practical to do manual checks for each application. Mrs S's circumstances may have changed more recently but this doesn't demonstrate card was unaffordable at the point of sale.

It said Mrs S claimed no checks were done which is not correct, so her testimony seems inconsistent and not plausible. Its debt management team is now trying to help Mrs S and will continue to do so. It has not sold the debt. Finally, it said the card should remain on her credit file as it is an accurate reflection of how the account was managed, and if removed there is nothing to stop the same situation happening again.

Mrs S did not reply.

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 general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mrs S's complaint.

I have considered NatWest's response to my provisional decision carefully but it has not changed my conclusion. I will explain why.

I understand its approval process is largely automated, but this does not change its obligation to lend responsibly. When we consider if a lender has completed proportionate checks we look not only at the information it opted to collect, but also how it responded to the information it had. And I find in the circumstances of this case it was a failing not to verify Mrs S's income given it held that data – whether it used an automated process to do this, or checked it manually. NatWest flagged that Mrs S ought not to have provided inaccurate information, and I accept she did, but this does not change its obligations to react to information it holds and lend responsibly. I am struggling to see how it can argue that the card was affordable at the point of sale when it had access to Mrs S's bank statements that clearly show she was under financial pressure – being persistently reliant on her overdraft

and having recently taken out two high value loans.

NatWest raised that Mrs S claimed no checks were done, which is wrong, so her testimony cannot be seen to be plausible. But my findings rely on the available evidence from looking at what information NatWest did and didn't use/verify, as well as Mrs S's bank statements – not what Mrs S has said. So this comment does not alter my conclusion.

Finally, NatWest said the card must remain on Mrs S's credit file as it is an accurate reflection of how she managed the account. I agree in part, and the redress in the provisional decision reflects this. The information should remain in full until the capital is repaid. But then any adverse information should be removed to reflect the conclusion that the lending decision was not fair. I am not instructing that the entry should be removed in full. If Mrs S is in an arrangement whilst she repays the capital, I agree that should be reflected on her credit file. She could contact the credit reference agencies to add a notice of correction onto her credit file, flagging that the account was found to have been lent irresponsibly by this service, if she wishes.

Putting things right

As I don't think NatWest ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I do think Mrs S should pay back the capital she borrowed. I don't think it is fair for the balance to be written off as Mrs S would like as she has had the benefit of the money. This is in line with our standard approach for cases like this.

Therefore, NatWest should:

- Rework the account removing all interest, fees (including the balance transfer fees), charges and insurances (which have not already been refunded) that have been applied.
- As this will result in an outstanding balance, NatWest should ensure the existing repayment plan for the remaining amount remains affordable for Mrs S.
- Once Mrs S has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

My final decision

I am upholding Mrs S's complaint. National Westminster Bank Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 13 April 2023.

Rebecca Connelley
Ombudsman