

The complaint

Mr H complains that National Westminster Bank Plc lent to him irresponsibly.

What happened

Mr H successfully applied for two loans with National Westminster Bank Plc ("Natwest") in 2016. The first loan was for £8,000 and was taken out in May 2016 with monthly repayments of £209.51. The second loan was for £18,900 and was taken out in November 2016 with monthly repayments of £473.59.

In 2022, Mr H complained to Natwest about their decision to grant him the loans. Natwest didn't uphold the complaint and said that Mr H's applications met their lending criteria.

Mr H referred the matter to us. Our investigator didn't uphold the complaint. She said that Natwest carried out proportionate affordability checks for both loans and that there was nothing within those checks which told them the loans were unaffordable.

Mr H didn't agree and so the complaint has been passed to me for a 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.

Mr H's complaint has been set up against Natwest. Unfortunately, neither party have been able to send us a copy of the loan agreements so there is some doubt as to whether Natwest is the correct respondent firm to this complaint. We haven't though been told that this is incorrect or that Mr H isn't the sole contracting party to the loans. So, while the position is unclear, I am proceeding on the basis that Mr H took these loans out himself and that Natwest provided those loans.

I've taken into account the rules and guidance for lenders in the Consumer Credit Sourcebook (known as CONC) within the regulator's handbook, when thinking about whether Natwest acted fairly and reasonably.

Prior to granting Mr H with credit, Natwest were required to ensure it would be affordable and sustainable. There isn't a set list of checks they needed to complete, instead Natwest needed to ensure the checks they completed were proportionate for each lending decision. What is considered proportionate will therefore vary with each lending decision.

In deciding what is proportionate, Natwest needed to take into consideration things such as (but not limited to): the amount of credit, the total cost of credit, the size of the monthly repayments and Mr H's specific circumstances.

Loan 1

Natwest says Mr H confirmed his monthly income at the time to be £1,500. And they say that they asked him for evidence of this as well as evidence of his monthly outgoings. From this, Natwest determined that Mr H's outgoings were £546 each month.

It's not entirely clear what evidence Natwest considered. I note in their final response letter to Mr H that they gave rather general comments about how they assess affordability in using credit reference agency data and Office of National Statistics data. It seems from the information they've sent to us that they carried out some form of credit check and looked at Mr H's bank account statements for the current account that he held with them.

It also seems that Natwest may have looked at those account statements only to verify Mr H's income. Natwest has sent us a copy of these statements and these show that Mr H's monthly income was broadly the same as he had declared. So, I think Natwest took reasonable steps to verify Mr H's income.

I don't though know whether Natwest also used those account statements to look at Mr H's monthly outgoings. It's not clear to me what check Natwest did, and they haven't explained what evidence they asked for and saw to check this.

I think though that the information shown on those bank statements would have given Natwest a reasonable idea of Mr H's monthly outgoings, including any existing ongoing credit commitments. I can see from this in the three months leading up to the loan that Mr H had two regular credit commitments of £130.92 and £148.58 each month as well as a payment of £20 to a mobile phone supplier. I haven't seen any other regular commitment from the bank statements, from the application data that Natwest gathered or on the copy of the credit file that Mr H sent to us. So, Mr H would have been left with around £1,200 for monthly living costs and the proposed monthly loan repayment of £209.51.

So, even though I have my doubts about whether Natwest carried out a proportionate affordability check, I don't find that they should have had cause to think that this loan would be unaffordable.

Loan 2

From what I can see, Natwest carried out broadly the same affordability check than they did for Mr H's first loan. Mr H declared his income to be the same as before and Natwest verified this using the bank account statements. As with the first loan application, I think Natwest took reasonable and proportionate steps to verify Mr H's income and the information shown broadly matched what Mr H declared.

However, for this loan, Mr H was asking for over double what he'd received only a few months before. That should have potentially flagged some concern to Natwest as the amount being asked for wasn't insignificant and was made very shortly after he'd applied for the first loan. Mr H did though say that the purpose of the loan was for consolidation and just under £8,000 of this was used to settle Mr H's first loan with Natwest.

I think it would have been reasonable for Natwest to have thought that Mr H intended to use the loan to repay other borrowing bearing in mind the reason he gave for applying for the loan, like for instance the two regular credit commitments of £130.92 and £148.58. Although the amount Mr H had to repay had increased to £473.59 each month, this was offset by Mr H no longer needing to make the loan repayments of £209.51 for the first loan and potentially the two other regular credit commitments. So, overall, this would potentially have left Mr H in broadly the same position in respect of the income he was receiving, and the amount of money left over for his other monthly living costs. I think it was reasonable for Natwest to have assumed this even though again I don't really know what checks they did to assess Mr H's monthly outgoings.

Natwest's credit check data showed that Mr H had recently taken out a new credit card. So, Mr H was committed to repaying other, newer credit than previously. The credit check showed the balance on the credit card to be just under £200. I don't think though this should have caused Natwest concern that Mr H might not have been able to clear this in a reasonable period of time bearing in mind the balance was relatively low and taking into account the disposable income Mr H seemed to have available to help repay this and his other costs.

So, in a similar vein to the first loan, I do have my doubts as to whether Natwest carried out proportionate checks. But I don't think there would have been any obvious concerns that Mr H wasn't able to afford the loan repayments for the second loan. I note that Mr H has said that he was gambling at the time. The bank statements I've seen don't show though that payments were being made to specific gambling merchants. There are quite a few cash withdrawals in the three months leading up to this loan. But I don't think that should have caused Natwest any particular concern as there was no obvious reason what these withdrawals were being used for or that Mr H was likely to continue to make the same level of withdrawals.

My final decision

For the reasons I've given above, my decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 6 October 2023.

Daniel Picken
Ombudsman