DRN-4205932

The complaint

Ms D complains that Barclays Bank UK PLC was irresponsible in its lending to her.

What happened

Ms D was provided with a loan for £17,200 in April 2017 on which she was required to make 60 monthly repayments of around £447. Ms D says she was in financial difficulty at the time and took the loan to try to pay off some other debts. Then, in August 2017, Barclays offered Ms D the option to refinance her loan. This increased her borrowing to £21,400 and she was required to make 60 monthly repayments of around £575. Ms D says that the loans were unaffordable, and Barclays could have seen this as it had access to her income, expenditure and had awareness of her other financial commitments, including her overdraft and credit card. She says her credit score was poor and her credit report showed she was using payday loans and had been approved for several overdraft agreements.

Barclays issued a final response letter in September 2020. It said that the loans provided in 2017 were completed online and that Ms D had pre-approved limits. It said its systems automatically generate limits for a range of products, including loans, based on a range of factors, such as a customer's account history, income and financial commitments, existing borrowing with Barclays and credit rating. It said the documents provided to Ms D explained that she needed to be happy with the loan before signing the agreement and that she had 14 days to cancel the loan had she not been happy.

Barclays provided a further final response letter in February 2023. It said that it had carried out an income and expenditure assessment on Ms D's loan (August 2017) at the point of sale and this showed she had an average monthly disposable income of around £1,222. As the loan repayments were around £575 it said these were affordable.

Ms D didn't agree that adequate checks had been carried out before the lending was provided and referred her complaint to this service.

Our investigator upheld Ms D's complaint. Although she thought Barclays had carried out proportionate checks before providing the loan, she thought these checks showed the loans to be unaffordable.

Barclays didn't agree with our investigator's view. It said that it had reassessed Ms D's income and expenditure based on our investigator's comments about the inclusion of costs such as food, fuel and missed rental payments. It said based on this it only found two months prior to the first loan when the repayments might have been an issue and no issues in regard to the second loan. It said non-essential spending wouldn't usually be taken into account and that it thought this was what caused the issues for Ms D rather than her regular outgoings. It said Ms D's borrowings from family and friends appeared to be due to her lifestyle rather than her regular outgoings.

My provisional conclusions

I issued a provisional decision on this complaint. My findings were as follows.

Ms D was provided with a loan for £17,200 in April 2017 (loan 1) and this was then refinanced in August 2017 and the loan amount increased to £21,400 (loan 2). I have considered each of these lending decisions separately.

Loan 1

Before loan 1 was provided, Ms D appeared reliant on her overdraft. I do not find that this would necessarily mean that other lending shouldn't be provided especially when the loan was intended for debt consolidation, as it was in this case. It's important that I take this into consideration, because ultimately the main purpose of this loan was repaying other existing borrowing. So, the amount that was intended to refinance existing borrowing wouldn't substantially have affected Ms D's position here. The 'new' money the loan provided was just over £2,800. However, I think that noting the circumstances a thorough assessment of Ms D's financial situation was required.

Barclays has said loan 1 was used to repay a £9,580 debt with a credit union, £3,089 payment off her Barclaycard and to repay her overdraft which was approximately £1,694 at the time the loan was agreed. The balance was retained in her current account. I have factored this into my assessment of the affordability of the loan.

Ms D's bank account statements for the three months leading up to the loan showed her income which included maintenance and child benefit to average around £2,120 a month. Ms D was making regular monthly payments for rent (£449) as well as media services, power, insurance and other credit commitments. Based on my calculations these averaged around £1,400 a month. This left Ms D with monthly disposable income (before the loan) of around £720 and after deducting the loan repayments it would leave disposable income of around £273. Out of this amount, Ms D would need to pay for her living costs including items such as food, transport and other living costs.

However, in this case the loan was being used for debt consolidation. Barclays has said the loan repaid Ms D's debt to a credit union, her overdraft and her credit card (and this is supported by her bank statements). Ms D was previously paying £280 a month to the credit union, and she was incurring fees averaging around £50 on her overdraft. Taking this into account Ms D's monthly disposable income (after the loan repayments) would increase to around £600. Based on this I do not find that I have enough to say that Barclays acted irresponsibly by providing the loan.

Loan 2

Loan 1 was repaid by loan 2 in August 2017, and the balance of the second loan was credited to Ms D's account. Ms D had maintained her repayments on loan 1 without issue, but the loan repayments on loan 2 were higher, at around £575 a month. Given this I think it would have been reasonable to carry out a thorough check, based on the information available to Barclays to ensure the lending was affordable.

I have looked at the information contained in Ms D's bank statements for the three months leading up to loan 2. These show her monthly income to be around £2,136. Her expenses reflected the debt repayments Ms D had made following loan 1 and her regular outgoings for costs such as rent, media packages, power, other credit commitments (including loan 1) and insurance were around £1,350. Replacing the repayments due under loan 1 with the repayments due under loan 2 would increase Ms D's expenses to around £1,488. This would leave Ms D with over £600 to cover her other living costs such as food, fuel and general expenses. Based on this I do not find I have enough to say that Barclays should have considered this loan unaffordable.

Ms D didn't agree with my provisional decision. She didn't think the consideration given to her bank statements was a fair assessment. She said at that time she knew she couldn't afford the loan and was in consultation with a debt charity. She said the fair assessment of her income and expense was undertaken in November 2017 by the debt charity and this supported her position in regard to her expenses and showed the loans weren't affordable. She noted that the first loan was for debt consolidation which removed some of her debts but didn't resolve her situation.

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.

Before lending, Barclays was required to carry out adequate checks to ensure the lending was affordable. It has said that its systems assess information from a customer's accounts and credit rating. I haven't seen any details of the credit checks carried out before the lending was provided but I have seen copies of Ms D's account statements. As this information was available for analysis, I find it reasonable to rely on the transactions recorded to give an indication of Ms D's income and expenses at the time.

I note the comments Ms D has made in response to my provisional decision about the reliance on the bank statements and the information provided in consultation with the debt charity. I have compared the information from the bank statements with that included in the debt charity income and assessment form. My assessment included Ms D's regular costs for items such as rent, utilities, insurances, communications and media services. These were generally supported by the amounts included in Ms D's debt charity form.

In the income and assessment form undertaken by the debt charity amounts are included for items such as food, fuel, entertainment, meals, tobacco, laundry and so on. In my assessment I considered that the disposable income left after Ms D had paid her regular expenses and credit commitments would be sufficient to cover her general living costs. While I appreciate that the amounts included in the debt charity assessment form are higher, this was undertaken after the loans were provided. Had an assessment of Ms D's bank statements been undertaken or questions asked at the time of the loans, I think it reasonable that the amounts that would have been identified for Ms D's essential spending wouldn't have suggested the loans to be unaffordable. So, while the lending didn't leave Ms D with much disposable income after her essential everyday costs and her regular expenses, on balance, and particularly noting the first loan was provided for debt consolidation reasons, I do not find that I can say Barclays Bank was wrong to provide the loans to Ms D.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 27 July 2023.

Jane Archer
Ombudsman