

The complaint

Mr M complains Royal Bank of Scotland Plc (RBS) irresponsibly provided him with four unaffordable personal loans.

What happened

RBS approved Mr M with the following loans:

Loan	Date of loan	Capital amount	Term (months)	Monthly repayments	Total repayable value
Loan 1	May 2021	£2,000	27	£100 (approx.)	£2,710 (approx.)
Loan 2	November 2021	£5,500	39	£200 (approx.)	£7,350 (approx.)
Loan 3	June 2022	£3,000	51	£100 (approx.)	£4,950 (approx.)
Loan 4	June 2023	£6,000	51	£210 (approx.)	£10,520 (approx.)

Mr M complained to RBS about irresponsible lending in July 2023. He said had RBS completed reasonable and proportionate checks it would have identified each of these loans were unaffordable for him.

RBS didn't uphold the complaint saying it completed proportionate checks and made fair lending decisions in each event. Unhappy with RBS's response Mr M brought his complaint to our Service for review.

Our Investigator considered the details and upheld Mr M's complaint in part. She said RBS's checks for loans one and two were proportionate; and that it had gone on to make fair lending decisions when providing these loans. However, she said RBS's checks for loans three and four weren't proportionate; and concluded it hadn't made fair lending decisions when providing these loans.

RBS accepted our Investigator's outcome. Mr M initially accepted the outcome; however, when he understood the details about redress and how the complaint would be settled, he made our Investigator aware he didn't accept the recommended redress settlement.

In summary, he said the refund of interest and charges should be paid directly to him, rather than used to reduce the remaining outstanding balances of the loans. He also said he's looking to receive financial compensation because of RBS's unfair lending decisions.

Mr M asked for an Ombudsman's review, so the complaint's been passed to me to decide.

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.

All parties have agreed RBS's lending decisions at loans one and two were fair; but that RBS didn't make fair lending decisions were arranging loans three and four. So, there is no longer an active dispute about RBS's lending decisions across the four loans me to consider.

But what is in dispute is what redress steps RBS should take in resolution of the complaint. As such, my decision here solely deals with the redress steps RBS need to take to fairly resolve this complaint.

Mr M has said he understood from our Investigator's assessment that the refund of interest and charges on loans three and four would be paid directly to him. He's said this because he considers the word 'refund' within our Investigator's outcome to be misleading – indicating that something would be given back to him. Mr M says he's paid interest and charges on loans that should never have been brought about, and as such he's lost out financially. He therefore argues this interest and charges should be refunded directly back to him, rather than used to reduce the outstanding balances he still owes RBS.

As part of her outcome our Investigator set out her recommendations as to how RBS should look to fairly resolve this complaint. She concluded RBS should rework loans three and four, removing all interest and charges and applying the repayments Mr M had made to date to reduce the total outstanding capital balances.

If this led to Mr M having paid more than the capital amounts lent the overpayments would be refunded back to him. But, in Mr M's circumstances this rework wouldn't lead to an overpayment. When all payments are applied to the new starting balances there is still outstanding capital balances. So, in this situation there is no refund directly to Mr M, however as his total liability to RBS has been reduced, he has received a financial benefit.

This redress direction set out by our Investigator is our Service's well-defined approach to redress in irresponsible and unaffordable lending cases. While I understand why Mr M is looking to achieve a different redress outcome in his complaint, he's had the use of the capital amounts lent, so it's only fair he repays them. And I've not seen anything in the individual circumstances of this complaint which leads me to conclude redress should depart from our standard approach in Mr M's case.

In response to our Investigator's outcome Mr M said he was looking to seek financial compensation for RBS's unfair lending decisions.

Mr M will be receiving financial compensation in resolution of his complaint. While not directly paid to him, as I've set out above the reworking of the loans will reduce Mr M's total liabilities with RBS.

I've considered whether RBS has acted unfairly or unreasonably outside of the unfair lending decisions; and therefore, whether a non-financial payment of compensation is warranted.

However, I've not seen anything to persuade me a payment for non-financial loss is warranted in this case. I say this because based on the evidence on file, I've not seen anything outside of the unfair lending decisions which leads me to conclude RBS acted in an unfair or unreasonable way.

I know my decision will likely be disappointing to Mr M; but I'm satisfied there is no reason for me to depart from our general approach to redress in the individual circumstances of Mr M's case.

Putting things right

Mr M's had the benefit of loans three and four, so I consider it's fair that he repays the capital amounts lent. But Mr M has paid interest and possibly fees and charges on loans that

shouldn't have been provided. So, Mr M has lost out and Royal Bank of Scotland Plc need to put things right by taking the following action:

- Remove all interest, fees and charges applied to loans three and four from the outset. Any payments made by Mr M should then be deducted from the new starting balances
 - a. If the payments Mr M has made total more than the amounts he was originally lent, then any surplus should be treated as overpayments and refunded to him, together with 8% simple interest* calculated on any overpayments made, from the date they were paid by Mr M to the date the complaint is settled
 - b. If after the adjustments have been made there are still balances to pay, Royal Bank of Scotland Plc should discuss arranging suitable/affordable payment arrangements with Mr M for the remaining balances
- Remove any adverse information recorded on Mr M's credit file as a result of loans three and four once any outstanding balances have been repaid

*HM Revenue & Customs requires Royal Bank of Scotland Plc to deduct tax from any award of interest. It must give Mr M a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I'm upholding Mr M's complaint about Royal Bank of Scotland Plc in part, and I direct it to settle the complaint as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 4 March 2024.

Richard Turner
Ombudsman