

The complaint

Miss F is unhappy that The Royal Bank of Scotland Plc (“RBS”) applied interest and charges to a loan balance which she feels was provided to her irresponsibly.

What happened

Miss F had a current account with RBS which included an overdraft facility. In April 2018, Miss F successfully applied to RBS for a personal loan for £7,500. The loan funds were used in part by Miss F to pay off her overdraft balance, which at that time stood at £4,349.29.

In 2023, Miss F complained to RBS about the overdraft facility on her current account as she felt RBS had provided it to her irresponsibly. RBS didn’t agree with Miss F’s complaint, so Miss F referred her complaint about the overdraft facility to this service.

One of our adjudicators looked at Miss F’s complaint and felt that RBS should have recognised that Miss F couldn’t reasonably afford the overdraft facility from May 2017 onwards and said that RBS should reimburse all interest, fees, and charges incurred on the overdraft balance from May 2017 back to Miss F. And RBS accepted the view of this complaint put forward by our investigator.

In response to the resolution of her complaint about her overdraft, Miss F noted that she had taken the personal loan to clear the overdraft balance which was now accepted to have been provided to her irresponsibly. And Miss F felt that because of this, she should be reimbursed interest and charges on the loan balance – because that loan balance was, in effect, the overdraft balance that was now accepted to have been provided to her irresponsibly.

RBS didn’t agree and felt that the loan had been provided to Miss F fairly. Miss F wasn’t satisfied with RBS’s response, so she referred her complaint about the loan to this service. One of our investigators looked at this complaint. But they didn’t feel the loan should be considered as being unfairly provided because the loan funds had been used in part to clear Miss F’s overdraft balance, and so they didn’t uphold the complaint. Miss F remained dissatisfied, so the matter was escalated to an ombudsman for a final 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.

I issued a provisional decision on this complaint on 10 November 2023 as follows:

This service generally considers complaints on an individual, case-by-case basis. But there can be instances where a complaint about one product can reasonably be considered to be an influencing factor regarding a complaint about a different product. And, given that Miss F used the loan funds under consideration here to clear her overdraft balance which RBS have accepted shouldn’t have been provided to Miss F on the basis that it was at the time that Miss F applied for the loan, I feel that this is the case in this instance.

In this instance, RBS have accepted – in regard to the previous complaint about the overdraft facility – that the overdraft facility should be considered as being provided to Miss F irresponsibly from May 2017 onwards. And RBS also agreed to reimburse to Miss F all interest, charges, and fees incurred on her overdraft balance from May 2017 onwards.

This means that if Miss F hadn't taken the personal loan to clear the overdraft balance, she would have been reimbursed all interest, fees, and charges on her overdraft balance that remained from April 2018 – when she took the loan – onwards.

As such, it doesn't seem fair to me that Miss F should be charged interest, charges, and fees on the portion of the loan funds she took in April 2018 which were used to clear the (irresponsibly provided) overdraft balance. And this is because, in short, I feel that the status of the overdraft balance as being provided irresponsibly should remain, regardless of whether that outstanding balance is transferred to a personal loan – as was the case here.

Accordingly, my provisional decision here will be that I uphold this complaint in Miss F's favour and that RBS must reimburse to Miss F all interest, charges, and fees incurred on the loan, only in regard to the portion of the £7,500 loan amount that was used to clear Miss F's overdraft balance – which it's my understanding was £4,349.29.

I also feel that RBS should reasonably have proactively taken the step which I'm provisionally instructing above upon their accepting that the overdraft facility had been provided to Miss F irresponsibly from May 2017 onwards. And so, my provisional instructions here also include that RBS must make a further payment of £150 to Miss F as compensation for the trouble and upset she's incurred in having to raise and pursue this matter.

In my provisional decision letter, I gave both Miss F and RBS the opportunity to respond and provide any comments or new information they might wish me to consider before I moved to issue a final decision. Miss F confirmed she was happy to accept my provisional decision, while RBS confirmed that they had no further comments to provide.

As such, I see no reason not to issue a final decision here whereby I uphold this complaint in Miss F's favour on the basis described above. And I therefore confirm that my final decision is that I do uphold this complaint on that basis accordingly.

Putting things right

RBS must reimburse to Miss F all interest, charges, and fees incurred on the loan, only in regard to the portion of the £7,500 loan amount that was used to clear Miss F's overdraft balance – which it's my understanding was £4,349.29.

RBS must also make a compensation payment of £150 to Miss F.

My final decision

My final decision is that I uphold this complaint against The Royal Bank of Scotland Plc on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 21 December 2023.

Paul Cooper
Ombudsman