

The complaint

Mr D complains that National Westminster Bank Plc ("NatWest") isn't able to explain how they've applied interest to a personal loan he held with them. Mr D is also unhappy that NatWest applied interest on overpayments he made.

What happened

Mr D held a personal loan with NatWest which he took out in September 2022. The loan was for £4,100 and was taken out over a 24-month term with monthly repayments due of £212.32.

Mr D says it was always his intention to repay the loan early by making overpayments towards it, and asked NatWest during the application process what charges would be applied if he did so. Mr D says that NatWest told him that charges would only occur if he settled the loan early.

Mr D made overpayments of £44.34 in October 2022, and overpayments of £143.92 and £1,000 in November 2022. He then noticed that NatWest had charged him £42.37 on 28 November 2022 with the charge being described as '*part pymt interest*'.

Mr D complained to NatWest explaining that he had specifically asked them whether he would be charged for making overpayments and had been told that he wouldn't. He also complained that NatWest had charged incorrect amounts of interest to his loan each month, noting that interest would increase from the previous month even though the outstanding balance of the loan had decreased significantly by his making monthly repayments. And he noted that interest between certain months would reduce only slightly.

Mr D says NatWest didn't provide him with any clarification on the points he'd made and mentioned that they had sent him an amortisation calculation which only set out likely applicable interest in the future, rather than an explanation of what they had already applied. He decided to settle his loan early rather than run the risk of further errors being made on his account.

Our investigator looked into what had happened and recommended that the complaint should be upheld. He said NatWest had failed to clearly explain to Mr D that interest would be applied to the loan if Mr D made any overpayments and that they hadn't been able to explain to him why he'd been charged for this in certain months and not in others. Our investigator also said NatWest hadn't explained why Mr D had been charged high interest despite him paying more than the required contractual payments and that the amortisation table they'd sent didn't answer the points Mr D had raised.

And our investigator felt that NatWest hadn't properly explained to Mr D how the loans process worked and had failed to call him back as promised.

He recommended that NatWest should pay Mr D £300 for the distress and inconvenience he'd suffered as a result of this dispute and that they should send him a detailed response on how interest on the loan had been calculated and applied.

Mr D and NatWest accepted this proposal. NatWest paid £300 to Mr D. However, he wasn't happy with the subsequent letter he received from NatWest about the interest they had applied.

Our investigator felt that NatWest had done all they could to act on his recommendation, but Mr D didn't agree. So, his 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.

I want to acknowledge that I've summarised the events of the complaint. I don't intend any discourtesy by this – it just reflects the informal nature of our service. I want to assure Mr D and NatWest that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.

I'd firstly like to clarify that I haven't considered NatWest's response to Mr D's Subject Access Request ("SAR") in my decision. I understand Mr D feels that NatWest has omitted part of the data they hold for him in respect of this. Mr D will need to contact the Information Commissioner's Office if he wishes to dispute NatWest's compliance with his SAR.

I have though considered the part of Mr D's complaint about the interest that NatWest has applied to his loan. Clearly, Mr D feels that NatWest hasn't applied this correctly, and hasn't been able to show him otherwise.

I can understand why Mr D would like to know how NatWest has applied the interest in question. And I also understand why he feels they should be able to explain this.

I've looked at the letter that NatWest sent to Mr D following our investigator's view and note they've said that they aren't able to create a statement explaining each interest calculation. NatWest has though explained how interest was applied to Mr D's overpayments. They said that the three overpayments he made was recognised as a total lump sum in November 2022 and that the contractual interest rate of 22.44% was applied to this figure to create the interest of £42.37 that they applied to the loan balance.

Since NatWest sent this letter, we've asked them to clarify this further, which they have done so as follows:

"A lump sum is recognised, and part payment charge is triggered when additional payment is more than the monthly payment amount or multiple additional payments add up to more than the monthly payment amount. The charge will be on the total lump sum amount which in this case is £1,188.26. No charge would accrue until the total of the additional payment adds up to more than the monthly repayment amount. The charge would only trigger once additional payments add up to more than the monthly payment amount. The charge will then apply the following working day"

From what I can see, that accords with the interest that NatWest applied in November 2022, in that the cumulative amount Mr D overpaid towards the loan exceeded the contractual monthly repayment when he made the overpayment of £1,000. And NatWest applied the interest of £42.37 on the following working day.

I've looked at NatWest's website to see if there is anything relating to interest on overpayments and can see the following is stated under the section 'Paying off a loan early':

'If you're not looking to pay off your loan in full, you can make an extra payment in addition to your normal monthly loan repayment....

Please note, for personal loans applied for after the 14 November 2010 – we charge:

- *Up to 58 days of interest if the loan term was more than 12 month or the remaining number of days interest if there are less than 58 days left in the loan term.*
- *Up to 28 days if the loan term was 12 months or less or the remaining number of days interest if there are less than 28 days left in the loan term*

The additional interest is calculated on the amount by which the outstanding loan balance is reduced and will be paid from your overpayment'.

I agree that NatWest were less than clear about this when Mr D spoke with their adviser initially to request the loan and when he subsequently asked for clarification of this from them. I haven't though seen sufficient evidence of an error in how they've applied this interest.

NatWest has said that they aren't able to send Mr D a breakdown of how the interest due each month was calculated. I understand that Mr D isn't happy with this and feels that they should be able to send this. However, I am unable to compel NatWest to do this if, as they say, they aren't able to. It would be different if I felt NatWest simply were refusing to do this because they didn't want to spend the time on calculating and providing such a breakdown. But I've not been persuaded that's the case.

I realise this likely leaves Mr D no further forward here. However, I am unable to compel NatWest to do what he's asked for. I also haven't seen sufficient evidence that there is an obvious error or that Mr D has suffered a financial loss because of this. Mr D may wish to seek advice or help from an accountant to determine whether an error or loss has occurred. However, I am unable to determine this, and it isn't for me to try I'm afraid as I am not an expert in interest calculations and the amortisation of this.

Having considered the matter, I find that NatWest did fail in their communications with Mr D and that a payment of compensation in recognition of the distress and inconvenience he suffered is warranted. I find that the £300 that has already been agreed and paid to Mr D is a fair amount in respect of this.

I also find though that NatWest has likely done all it can to explain how interest has been applied to Mr D's loan account and, in the absence of sufficient evidence showing an error or a financial loss suffered by Mr D, I won't be asking them to do anything more than our investigator recommended.

My final decision

My final decision is that I uphold this complaint. However, I will not be asking National Westminster Bank Plc to do anything further bearing in mind my comments above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 7 June 2024.

Daniel Picken
Ombudsman