

The complaint

Miss K complains The Royal Bank of Scotland Plc (RBS) have irresponsibly lent personal loans to her.

What happened

I issued a provisional decision setting out what'd happened, and what I thought about that. I've copied the relevant elements of this below, and they form part of this final decision.

Miss K says in October 2016 she was offered a loan through RBS' banking app for £3,000. She applied and was accepted. She says she's surprised she was accepted because her income wasn't very good. She's said she was earning an average of £10,000 and due to go on extended leave from work. She then took two further loans, in December 2017 and September 2018 – both of which repaid parts of the previous loans. Miss K said it was irresponsible of RBS to have lent to her, so she's asked for a refund of all interest and charges and any negative information removed from her credit file.

Miss K has also raised a complaint regarding an overdraft, but that'll be addressed separately to this complaint.

RBS said Miss K applied for the following loans:

- 1. October 2016 - £3,000*
- 2. December 2017 - £3,200*
- 3. September 2018 - £5,500*

They've said each of these loans met their lending criteria, so they granted the loans – but could also see Miss K had applied for further loans, which were rejected by them. Two other loans were accepted, but RBS say Miss K cancelled them within the cooling off period, so I've not considered those. RBS said all lending is looked at to make sure it meets their affordability guidelines – including a review of data with the Credit Reference Agencies (CRAs), Credit Scoring, and the Office of National Statistics (ONS). They added they also look at how accounts are managed with them – and overall they didn't think they'd done anything wrong.

Unhappy with this, Miss K asked us to look into things – saying she had childcare commitments between November 2017 and November 2019 which hadn't been taken into account.

Our Investigator considered things but didn't think RBS had irresponsibly lent to her even taking into account her childcare commitments. Miss K still didn't agree, so the complaint's been passed to me to decide.

What I've provisionally 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.

We've explained on our website how we handle complaints about unaffordable and irresponsible lending, and I've used this approach to help me decide Miss K's case. RBS were required to make sure they didn't lend irresponsibly – which meant they had to gather details of Miss K's circumstances to ensure she could sustainably repay this loan.

This is called carrying out proportionate checks. Our website sets out what proportionate checks are – so I've looked at what information RBS gathered to see if it carried out proportionate checks.

We generally say the higher the amount of borrowing, or the lower a borrower's salary, the more a lender needs to do to satisfy themselves they've gathered proportionate information. Equally, if the amount of borrowing is low, and the salary is high, then the less we'd say lenders need to do in order to show it didn't lend irresponsibly.

Each loan Miss K ended up taking out was a separate lending decision, so I've split my thoughts out for each one.

Loan one – October 2016 for £3,000

The repayments for this loan were £115.56 per month. RBS have shown Miss K declared income of £1,250 per month and mortgage commitments of £100 a month. They added a further £381 in living costs when deciding whether to lend. In RBS' calculations, this left £769 per month available for other expenses – such as the loan repayments.

I've looked at Miss K's statements. These show in July, August and September 2016 Miss K had an average monthly spend of £900, and income of £1,000.

The current account was with RBS – so they had access to this information, and I'd expect them to have taken this into account.

I've seen no evidence they did – so, in the circumstances, I can't fairly say they've carried appropriate proportionate checks. And, I think had they done so, they'd have realised Miss K couldn't afford this loan and wouldn't have lent it to her. This means I also don't think they've made a fair lending decision. So I'm intending to uphold the sale of this loan.

Loan two – December 2017 for £3,200

The repayments for this loan were £103.73 per month. RBS have shown Miss K declared income of £1,500 per month and mortgage commitments of £200 a month. They added a further £556 in living costs when deciding whether to lend. In RBS' calculations, this left £744 per month available for other expenses – such as the loan repayments.

I've looked at Miss K's statements. These show in September, October and November 2017 Miss K had an average monthly spend of £1,235, and income of £1,078.

For the same reasons I'm upholding loan one, I'm also intending to uphold this loan sale.

Loan three – September 2018 for £5,500

The repayments for this loan were £154.14 per month. RBS have shown Miss K declared income of £1,694 per month and mortgage commitments of £200 a month. They added a further £589 in living costs when deciding whether to lend. In RBS' calculations, this left £896 per month available for other expenses – such as the loan repayments.

I've looked at Miss K's statements. These show in June, July and August 2018 Miss K had an average monthly spend of £1,847, and income of £1,617.

Again, I'm intending to uphold this for the same reasons I've mentioned for upholding loan one.

Putting things right

I'm currently planning to require RBS to:

- *Refund all interest, fees and charges Miss K paid on loans one and two*
- *Add interest at 8% per year simple* on any refunded payments from the date they were made by Miss K, to the date of settlement*
- *Rework loan three to remove any interest, fees or charges so only the amount borrowed is left to be repaid – then remove any payments Miss K made to the loan from this. If Miss K has then repaid the balance then anything extra should be treated as overpayments. Any overpayments should be refunded. If any balance remains on loan three after all adjustments have been made, then RBS can use the compensation due from loans one and two to reduce the outstanding balance on loan three.*
- *Add interest at 8% per year simple* on overpayments, if any, Miss K made from the date she made them, to the date of settlement*
- *Remove all negative CRA entries regarding loans one and two, if any have been made. And, if after all the adjustments mentioned above have been made no outstanding balance remains on loan three, all negative CRA information to be removed regarding this loan too.*

**HM Revenue and Customs requires RBS to deduct tax from the interest payment referred to above. RBS must give Miss K a certificate showing how much tax they've deducted if she asks them for one.*

Responses to my provisional decision

Miss K simply replied with a thank you.

RBS said the following:

- *I'd not explained what spending I'd taken into account, so if this included unnecessary spending then that'd potentially be unfair.*
- *But if the complaint is still upheld, then my proposed redress is confusing – point three goes against points one and two. RBS said normally if a debt is still owing then any interest is repaid to them first.*
- *RBS added the debt had been written off by them, with a balance owing of £5,096.22 and the total interest across the three loans was £3,054.13 – so technically nothing would be due to Miss K.*

We clarified with Miss K and RBS that actually the debt had been sold to a debt purchaser. In response, RBS said what they'd usually do in this situation is buy the debt back from the debt purchaser – so still no money is due to Miss K.

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've noted RBS' comments, but I don't agree including 'unnecessary spending' can or should be considered unfair in Miss K's case – on the basis RBS had access to her statements. And, my provisional decision was clear in setting out I'd calculated what Miss K spent and earned using her statements. So, I'm comfortable it's right for this case to still be upheld.

I'm sorry RBS think my redress is confusing. I've redrafted it to try and help. I've noted RBS have said they'd buy back the debt from the debt purchaser – that's their call to make and not something I require them to do – as long as they carry out my redress as set out below.

Putting things right

I require RBS to:

Loan one

- Refund all interest, fees and charges Miss K paid on loan one
- Add interest at 8% per year simple* on any refunded payments from the date they were made by Miss K, to the date of settlement
- This combined figure becomes 'Loan refund 1'
- Remove any negative information applied regarding loan one from the CRAs

Loan two

- Refund all interest, fees and charges Miss K paid on loan two
- Add interest at 8% per year simple* on any refunded payments from the date they were made by Miss K, to the date of settlement
- This combined figure becomes 'Loan refund 2'
- Remove any negative information applied regarding loan two from the CRAs

Loan three

- Rework loan three to remove any interest, fees or charges so only the amount borrowed is left to be repaid – then remove any payments Miss K made to the loan from this.
- If Miss K has then repaid the balance then anything extra should be treated as overpayments. Any overpayments should be refunded. In addition, if Miss K has repaid the balance, then any negative information should be removed from the CRAs.
- Add interest at 8% per year simple* on overpayments, if any, Miss K made from the date she made them, to the date of settlement
- If any balance remains on loan three after all the first two adjustments have been made, then RBS can use Loan refund 1 and Loan refund 2 to reduce the outstanding balance.

*HM Revenue and Customs requires RBS to deduct tax from the interest payment referred to above. RBS must give Miss K a certificate showing how much tax they've deducted if she asks them for one.

My final decision

For the reasons I've mentioned above, I uphold this complaint and require The Royal Bank of Scotland Plc to carry out the actions in the 'Putting things right' section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 3 April 2024.

Jon Pearce
Ombudsman