

The complaint

Ms G complained that National Westminster Bank Plc (“NatWest”) irresponsibly granted her a personal loan in June 2020 that she couldn’t afford to repay.

What happened

Ms G took out the loan in June 2020. The amount was £5,000, and the monthly payment was £111.85 over a 60-month term. The purpose of the loan was debt consolidation, and transaction details supplied by NatWest show that a total of £4,320.90 was paid directly to three other lenders.

Ms G later fell into financial difficulties, and NatWest said that the loan was later sold to a third-party debt company in August 2022.

Ms G said that, in June 2020, she had unsecured debt amounting to nearly £12,000, but she was only working part time and had young children. She feels that the loan was unaffordable and that it led to increased financial stress, with the payments on her credit commitments taking up a significant proportion of her income. Ms G doesn’t think that NatWest carried out appropriate checks before granting the loan, and would like a refund of all charges and interest paid to date.

Ms G complained to NatWest about all this. NatWest said it had carried out the appropriate checks before granting the loans, and it told Ms G that it did not uphold her complaint. Ms G then brought her complaint to this service. Our investigator looked into it but didn’t think it should be upheld. Ms G didn’t agree, and asked for it to be reviewed by an ombudsman.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided not to uphold Ms G’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether NatWest completed reasonable and proportionate checks to satisfy itself that Ms G would be able to make the repayments on the loan account in a sustainable way.

NatWest sent in copies of information it used to assess Ms G’s loan application and its records of this complaint. Ms G provided copies of bank statements from the period leading up to June 2020, along with a copy of her credit report.

NatWest said in its final response letter to Ms G that the loan application was made online, and met its lending conditions without the need for more detailed checks. Expenditure details for mortgage or rental payments, living costs, and existing credit commitments were taken from the application but also verified by way of credit reference agency checks. Income was validated through online systems, and the application was assessed using credit scoring, which takes into account the following:

- credit reference agency data
- income
- account activity and management
- internal lending history with the bank
- personal circumstances
- the amount of the loans and the term of the loans.

NatWest also said that, at the time of the application, there was no adverse information, such as credit defaults, court judgements or bankruptcy, evident either on its records or on Ms G's credit reference data.

I don't have all of the figures NatWest used in its assessment – but it said that Ms G stated her monthly income after tax as £1,500, and it validated this figure, and that Ms G's monthly housing cost was £400.

I've looked at Ms G's credit history and bank statements. The bank statements show an arranged overdraft limit of £200, although the account was mostly in credit and a number of the transactions seem to relate to discretionary spending.

NatWest said Ms G stated her monthly income as £1,500. Looking at the bank statements it looks as though Ms G changed jobs just before she took the loan, as her source of income seems to have changed. Her income from employment in April and May 2020 was lower than this figure, but Ms G was receiving state benefits which increased her overall income to well over £1,500 each month.

The bank statements show monthly payments to a letting agent, so I take this to be rent. The figure is £850 – just over double the amount Nat West said Ms G had stated. This would be right if the rental payment was a joint commitment and Ms G was responsible for half of it. She hasn't said anything about this, but the credit report she sent in shows a financial association with another person starting in 2019, and I don't think Ms G would have understated her rental payment by that much if she was responsible for all of it. So I think it most likely was a joint commitment, and I don't think it was unreasonable for NatWest to rely on the information she provided.

Turning to Ms G's credit commitments, she told us she had a personal loan - with another lender - and six credit cards at the time she applied for the NatWest loan. The credit report doesn't show the credit limit for the cards, or the historic balances (although Ms G did give us balance figures), so I can't tell if she was near to her credit limit on the cards. However, I can see from the statements how much Ms G was paying out each month. The personal loan had a monthly payment of £102.70. The monthly payments on the cards fluctuated, as would be expected, but in May these came to just over £200 (and the amount was not dissimilar in March and April).

The credit history also shows that the payments on Ms G's credit commitments were all up-to-date when she applied for her loan.

As I noted above, NatWest didn't give us the figure for living costs that it used in its assessments. However, Ms G's bank statements show direct debits for council tax, water charges and utilities, and these total in the region of £385 each month (although it's possible Ms G wasn't solely responsible for paying these, as with the rental costs). I don't have any figures for food and other living costs such as travel.

Taking the payments on the loan and card, and the household expenses and rent I've identified above, off of Ms G's stated income of £1,500 leaves a figure of around £420 each month for other living costs such as food and travel.

From all this, I'm not satisfied that NatWest carried out reasonable and proportionate checks before granting the loan. I say this because of the number of commitments Ms G had, and the balances she told us about relative to her income. It's also not clear how much disposable income would've been shown in NatWest's assessment – it didn't give us its figures, but, based on a stated monthly income of £1,500, the outgoings on Ms G's bank statements don't immediately suggest a high level of disposable income.

I think it would've been proportionate for NatWest to have asked for more details of Ms G's income and expenditure, for example by looking at her bank statements, especially as her current account was with a different bank so NatWest didn't have access to the information.

However, my conclusion that NatWest should reasonably have carried out further checks doesn't automatically mean that the lending decision was unfair.

In this case I don't think it was unfair. I say this for the following reasons.

Had NatWest reviewed Ms G's bank statements, it would've seen that her overall income was higher than she stated. I mentioned above that the statements showed state benefit payments, which would've contributed to Ms G's household costs and increased her actual disposable income figure. NatWest would also have been able to verify Ms G's actual rental costs and her living expenses, of course.

I've also taken account of the purpose of the loan, which was debt consolidation. As I noted earlier, NatWest said that most of the loan – just over £4,300 – was paid directly to three other credit card providers. I don't have information on how the remainder of the loan was used. The amounts paid to two of the providers would have cleared the balances of two of Ms G's credit cards, based on the figures she provided. With regard to the third, the amount paid was higher than Ms G told us, but it's possible she gave us an incorrect figure. The payments to the three credit cards in May 2020 totalled £163.61, whereas the monthly payment on the new loan was £111.85. So the result of the new loan was an increase of just under £700 in Ms G's overall debt level, but a reduction in her monthly outgoings.

Given her higher overall income, and the reduction in outgoings by the loan replacing the credit card balances, I think Ms G *did* have sufficient disposable income to meet the payments on the new loan, and I don't think there was information to suggest that the payments would be unsustainable. So I don't think NatWest acted unfairly in granting the loan and therefore I don't uphold this complaint.

My final decision

For the reasons I've explained, I've decided not to uphold Ms G's complaint.

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

Jan Ferrari
Ombudsman