

The complaint

Mrs L complains that Barclays Bank UK PLC lent irresponsibly when it approved her loan application.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

In December 2020 Mrs L successfully applied for a £20,000 loan with Barclays for home improvements.

Last year, Mrs L complained that Barclays had lent irresponsibly and failed to complete the relevant checks before approving her loan. Barclays issued a final response. Barclays said it looked at Mrs L's joint current account and found it received a monthly income of £3,374 with outgoings of £1,481.90. Barclays says that left Mrs L with sufficient disposable income of £1,893.88 to afford repayments of £403 over a 5 year term.

Mrs L referred her complaint to this service and it was passed to an investigator. Mrs L said it was unreasonable for Barclays to have based its lending decision on the joint income being received each month. Our investigator asked Barclays to supply copies of its lending assessment and the information it used when looking at Mrs L's loan application. Barclays said that information was commercially sensitive and didn't provide it.

Barclays said it had retrospectively reviewed Mrs L's loan application and income and outgoings. Barclays said Mrs L had a monthly income of £2,457.15 with total expenditure of £1,715.82 leaving a disposable income of £741.33. Barclays says that was sufficient to make payments of £403 each month, leaving Mrs L with around £340.

Our investigator looked at Mrs L's complaint and said they thought the regular use of her overdraft and use of a joint income to base its lending decision should've caused Barclays to carry out better checks, like reviewing her bank statements, before approving the loan. But the investigator thought Barclays would've still decided to proceed and approve Mrs L's loan if it had looked at her bank statements and didn't uphold her complaint.

Mrs L asked to appeal and said Barclays hadn't based its lending decision on her income or circumstances and that it was unreasonable to have used someone else's income when deciding whether to proceed. Mrs L also said that whilst some of the loan funds had been used to clear other debts, she'd quickly borrowed again in the months that followed. As Mrs L asked to appeal, her complaint has been passed to me to make a decision.

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.

Before agreeing to lend, the rules say Barclays had to complete reasonable and proportionate checks to ensure Mrs L could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;*
- The total sum repayable and the size of regular repayments;*
- The duration of the agreement;*
- The costs of the credit; and*
- The consumer's individual circumstances.*

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

We asked Barclays to supply evidence to show the lending checks and information it used when considering Mrs L's loan application in December 2020. Barclays responded to say that information is commercially sensitive and it wasn't supplied. I note Barclays' final response advised Mrs L it had used both incomes being paid into her account to reach its lending decision. When our investigator asked for more information surrounding its affordability checks, Barclays provided a different set of figures it says verifies the loan was affordable. But I'm not persuaded I've seen evidence from Barclays that shows it completed reasonable and proportionate checks when considering Mrs L's loan application.

I also think it's fair to say Mrs L was applying to borrow a substantial amount. When interest was added, the total borrowing was over £24,000 over a five year term with monthly repayments of £403. Mrs L's loan application was made on the basis of "home improvements" not debt consolidation. So Barclays needed to ensure she could afford to maintain her existing commitments along with the new loan payment. I've looked at Mrs L's credit file and think it's fair to say she had a reasonable amount of other credit in place at the time of application that I'd have expected Barclays to take into account. In addition, I note that Mrs L's account with another bank was consistently overdrawn each month indicating she was potentially reliant on credit. In my view, Barclays should've carried out more comprehensive checks, like getting evidence of Mrs L's income or reviewing her bank statements before deciding whether to proceed.

Mrs L has sent us copies of two sets of current account statements. One with Barclays, the other with a bank I'll call L. I can see that both accounts have a reasonable amount of transfers both into and out of the accounts from other accounts Mrs L has. But I wouldn't expect a lender to use transfers between Mrs L's accounts as income for lending purposes. In addition, whilst I note Barclays' final response says it used both incomes being paid into Mrs L's account for its lending assessment, I'm not persuaded that's reasonable without fully understand the circumstances of the other individual. I've based my findings on Mrs L's income only.

I reviewed both sets of bank statements for September, October and November 2020 to get a picture of Mrs L's regular income and expenditure. I found that a reasonable proportion of Mrs L's income was made up of benefits, including child benefit being received each month. Mrs L's remaining income came from her job. I found that in September 2020 Mrs L received £1,738, in October 2020 she received £1,953 and November 2020 she received £1,782. I went over Mrs L's bank statements to get an idea of her outgoings for her credit commitments and regular bills. I found regular outgoings of £1,244 in September 2020,

£1,703 in October 2020 and £1,695 in November 2022. Those figures do not take into account card payments Mrs L may've made for food, fuel or other day to day living costs. I calculated that Mrs L had around £489 available in September 2020, £252 in October 2020 and £87 in November 2020 after regular outgoings were taken from her accounts.

Looking at the new loan cost of £403 each month, I'm not persuaded that Mrs L had disposable income that was sufficient to sustainably make loan repayments at that level over a five year term. In my view, a more comprehensive set of checks and closer review of Mrs L's circumstances would've led Barclays to decline to proceed with Mrs L's loan application.

I've reached a different conclusion to the investigator. I haven't been persuaded that Barclays has demonstrated it lent irresponsibly to Mrs L. And I'm satisfied that more comprehensive checks would've quickly identified that further total borrowing of over £24,000 at £403 a month was unlikely to have been sustainable for Mrs L over the course of a five year term. Based on the information I've seen so far, I intend to uphold Mrs L's complaint and direct Barclays to refund all interest, fees and charges applied to the loan from inception.

I invited both parties to respond with any further comments or information they wanted me to consider before I made my final decision. Neither party responded.

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.

As neither party has provided new information for me to consider I see no reason to change the conclusions I reached in my provisional decision. I still think Mrs L's complaint should be upheld, for the same reasons.

My final decision

My decision is that I uphold Mrs L's complaint and direct Barclays Bank UK PLC to settle as follows:

- Remove all interest, fees and charges applied to the loan from the outset. Any payments made by Mrs L should then be deducted from the new starting balance.
- If the payments Mrs L's made total more than the amount she was originally lent, then any surplus should be treated as overpayments and refunded with 8% simple annual interest* calculated on the overpayments made from the date they were paid, to the date the complaint is settled.
- If there's an outstanding balance on the loans, then Barclays should agree an affordable repayment plan with Mrs L, bearing in mind the need to treat her positively and sympathetically in those discussions, and take account of her current ability to repay the loan. Interest should not be charged on the remaining balance.
- Once the outstanding balance is repaid, any relevant adverse information (related to the lending) recorded on Mrs L's credit file should be removed.

*If HM Revenue & Customs requires Barclays to take off any tax from this interest, it should give Mrs L a certificate showing how much tax its deducted if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 9 May 2024.

Marco Manente
Ombudsman