

The complaint

Mr B complains that National Westminster Bank Plc was irresponsible in its lending to him. Mr B is represented by a family member Mr B1.

What happened

Mr B was provided with a loan for £5,300 by NatWest in June 2023. The loan was repayable over 12 months with monthly repayments of around £505. Mr B1 says that before the loan was provided, Mr B had only been working for a couple of months and his bank account was overdrawn. Mr B1 explained that Mr B has medical conditions which meant he wasn't aware of the need to repay the loan and that he is unable to manage his bank account by himself. Mr B missed all the repayments and doesn't have a regular income. He says the loan was never affordable.

NatWest issued a final response letter dated 3 October 2023. It said the loan application was made online and that the application process explains each step to the customer so they can make an informed decision as to whether to proceed or not. NatWest said it wasn't aware of Mr B's vulnerabilities at the time of the application. It said Mr B confirmed a monthly income of £2,000 and this was checked against his account. It said Mr B was asked to confirm his expenditure and that alongside this it carried out checks with the credit reference agencies. It said that based on the information received, credit scoring and affordability Mr B's application was approved without the need for additional checks.

Our investigator didn't uphold this complaint. She thought that NatWest should have taken more steps to build a detailed picture of Mr B's financial situation. She noted that Mr B's income was checked against his bank account, and she didn't think this raised concerns that meant there should have been further checks. She requested a copy of Mr B's credit report to understand his other commitments at the time and based on this and the other information she didn't think that further checks would have shown the loan to have been unaffordable. She noted the additional information that had been provided about Mr B's medical conditions and his vulnerabilities but said that NatWest weren't aware of these at the time the loan was provided. She did however remind NatWest of the requirement to treat Mr B positively and sympathetically if he was experiencing difficulties repaying the loan.

Mr B1 explained that he was unaware that Mr B had taken out the loan until the letter about the missed payments was received and he reiterated that Mr B only had two months of income before the loan was provided. He said the stress of this loan and other health issues meant that Mr B was no longer able to work and that this issue was having a seriously negative impact on his mental health.

My provisional conclusions

I issued a provisional decision on this complaint, the content of which is set out below.

Mr B was provided with a £5,300 loan. Before the loan was provided information about Mr B's income was requested. Mr B declared a monthly net income of £2,000. The monthly repayments on the loan were around £505 meaning the repayments for this loan alone

accounted for over 25% of Mr B's income. Given this I think it reasonable that NatWest should have ensured it had a clear understanding of Mr B's financial circumstances before the loan was provided to ensure it was affordable for him over the loan term.

NatWest verified Mr B's income using his current account information. Mr B1 has said that Mr B only had an income for a short period before the application. Noting the size of the repayments it was especially important to assess whether Mr B had sufficient income to maintain the repayments over the 12-month term. So I would have expected NatWest to have looked at Mr B's income over a number of the preceding months to understand fully his circumstances.

Having looked through Mr B's account it appears that he started receiving a weekly income in mid-March 2023. This was less than three months before the loan was provided. The weekly income was initially for just over £500 but this was then for lower and differing amounts in April 2023 and then increasing again to £500 on 11 May and then being around £444 in the weeks leading up to the loan. I accept that the verification process of Mr B's income for the previous two and a half months would have supported a monthly income of around £2,000. But, given his income varied and was lower in the more recent weeks than it had been at the outset, and noting that he had only received an income for less than three months, I think it would have been reasonable for NatWest to have asked Mr B about this to understand his situation better.

I cannot say what NatWest would have been told had it asked Mr B about his income. But, noting the information provided I think it more likely than not that had further questions been asked, these would have raised concerns about the sustainability of Mr B's income and his ability to make the loan repayments over the loan term.

I have looked at Mr B's credit file from the time of his loan application and he had no other accounts apart from his current account. Mr B is young, and it isn't unusual for a person of his age to not have a credit history. But, while his credit file didn't raise concerns, the lack of other credit commitments meant it wasn't able to give any indication of Mr B's ability to manage credit commitments.

Mr B's current account had been in credit in the months leading up to the loan and I can't say the account suggested Mr B was in financial difficulty at that time. But there was rarely a high balance in the account which could raise concerns about Mr B's ability to make regular payments of £505.

Taking all of the above into account, I think that further checks should have been undertaken and I think, on balance, had these happened they would more likely than not have raised concerns about Mr B's ability to sustainably meet the loan repayments. Because of this I am upholding this complaint.

Since the loan was provided, Mr B1 has explained Mr B's medical conditions and his vulnerabilities. He has provided evidence of these and an expert opinion stating these conditions interfere with Mr B's logical decision-making ability, memory formation, retention and judgement. Mr B1 has explained that Mr B is no longer able to work and is applying for benefits. This raises concerns about Mr B's ability going forward to make repayments. Given this information I would expect NatWest to take Mr B's conditions into account when considering any repayment plan and ensure he is treated appropriately given his vulnerabilities.

Both parties accepted my provisional decision. NatWest said that Mr B should liaise with its Specialist Support Team going forward to come to a suitable repayment plan for the £5,300. It said that it was unclear how long it would take for Mr B to clear the debt but it would place

a note on the system to state that once repaid any adverse data should be removed from Mr B's credit file.

Mr B1 said that since raising this complaint, Mr B had been approved for a Debt Relief Order and NatWest had been informed of this.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

As I set out in my provisional decision, I think that further checks should have taken place before the loan was provided and had these happened, I think it more likely than not that NatWest would have identified concerns about Mr B's ability to sustainably maintain the repayments. As both parties accepted my provisional decision, my conclusions haven't changed from those previously set out.

Mr B1 has explained that Mr B has been approved for a debt relief order and that NatWest has been made aware of this. But Mr B1 has said that Mr B still wants this decision to be finalised so that it is in place should his circumstances change. Based on this I am issuing this final decision but as a debt relief order is in place NatWest will need to reflect this in the action taken.

Putting things right

Subject to any requirements regarding this loan as contained in Mr B's debt relief order, National Westminster Bank Plc should:

- remove all interest and charges applied to the loan and deduct any repayments Mr B has made towards the loan as if they were repayments of the capital amount.
- work with Mr B to establish an affordable repayment plan for any outstanding balance (this may now be subject to the debt relief order conditions). NatWest has explained that Mr B will need to make contact with its Specialist Support Team.
- remove any adverse information recorded on Mr B's credit file in respect to this loan once the outstanding balance has been repaid.

My final decision

My final decision is that I uphold this complaint. National Westminster Bank Plc should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 May 2024.

Jane Archer
Ombudsman