

The complaint

Mr L has complained that National Westminster Bank Plc (“NatWest”) acted irresponsibly when it provided him with a £8,000 loan in March 2023.

Background

Mr L is a compulsive gambler. In March 2023 he successfully applied for a £8,000 loan with NatWest online. He has said that at the time his gambling was out of control, and he was spending funds in an excessive and harmful manner. He thinks NatWest acted irresponsibly when it provided him with the loan as he believes it should have been apparent that he was struggling with an addiction and the funds would be used in a way that was going to cause him harm. He has asked that NatWest write off the existing balance of the loan.

NatWest has said that at the time of application it ran all the necessary credit checks to ensure the lending was affordable. While it accepts that it did see gambling activity on Mr L’s account prior to approving the loan application it has said the level of gambling fell below its risk threshold and so the loan was approved. As it didn’t think it made any error in providing Mr L with the loan it didn’t uphold his complaint or agree to the capital write off.

Unhappy with NatWest’s response Mr L brought his complaint to our service. I issued a provisional decision on Mr L’s complaint on 25 March 2024. In it I said that NatWest had acted irresponsibly when it provided Mr L with the loan in 2023 and that the harm it would likely cause him was entirely foreseeable at that time. As such I felt that NatWest’s behaviour had been inappropriate to the point of being reckless and I said in these circumstances the fair outcome would be for NatWest to write off the remaining balance owed. I asked both parties to respond by 22 April 2024 with any comments or additional evidence they wanted me to consider.

NatWest responded to the provisional decision confirming it had nothing further to add.

Mr L responded to the decision asking if I would also direct the bank to remove the loan from his credit file.

As no new information was provided in response to the findings in the provisional decision my opinion on the complaint remains the same. I will therefore repeat those findings now and answer Mr L’s query regarding his credit file.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having done so, I agree with Mr L’s assertion that it should have been apparent to the person who reviewed his statements prior to approving the loan application in March 2023 that he was gambling in a compulsive and harmful way. And it follows that it should have been clear that providing him with access to more credit was only going to make an already difficult and unmanageable situation worse. And for that reason, I am upholding Mr L’s

complaint and asking NatWest to write off the outstanding balance of the loan rather than just refunding the interest and charges added to it.

When consumers apply for credit, businesses are obliged to run affordability checks to ensure that the lending will be both affordable and sustainable over the term of the loan. NatWest has confirmed that when Mr L applied for his loan with it, it ran various automated checks on his declared income and outgoings to ensure the lending was appropriate. It has told us that the gambling activity on Mr L's account was flagged during these initial checks and as a result of that, a member of staff manually reviewed Mr L's bank statements, to see whether or not the gambling was something that may impact his ability to repay the loan. NatWest has said following that manual review it decided that while there was regular gambling on the account, it was below the risk level it has set for itself, and therefore, the loan application was approved.

What is important here is that NatWest has confirmed that Mr L's statements were reviewed by a person. A lot of the time creditworthiness checks are completed by algorithms that may lack the necessary programming to spot indicators of vulnerabilities. But when accounts are manually reviewed by a person, who should have the relevant knowledge, understanding and insight to spot indicators that someone may be struggling, the way we expect the bank to consider the information can be impacted.

Because NatWest has confirmed that this manual review took place, I've also looked at Mr L's bank statements to understand what the NatWest representative would have seen when they reviewed his account. Having done that, I've come to a different conclusion to that person, in that I think it should have been more than obvious from the statements what Mr L was going through, and what would happen if the bank approved the £8,000 loan for him. I say this because at the time Mr L applied for this loan, he already had over £33,000 of unsecured debt, mostly spread across four credit cards, one of which, with the highest limit of £12,000, was held with NatWest. He was also living in his overdraft facility and heavily reliant on it to meet his existing obligations. Which means he was already repaying the credit NatWest provided to him via a credit card with credit it was providing him via an overdraft. All before it provided him with the loan in question.

In addition to that in the three months prior to the loan being approved, Mr L was clearly gambling in a compulsive manner. In December 2022, despite depositing over £17,400 (in addition to his wages which were just over £3,000), from various unqueried sources, including what appear to be two extremely large cash transfers from one of his credit cards, Mr L still finished the month with a negative balance on his account. This was because of the enormous volume of gambling throughout the month.

In his January 2023 statement, it appears Mr L was paid £3,030 but gambled a total of £7,800; so more than double his monthly income. He did manage to get the account back into credit towards the end of the month after he received a payment on an insurance claim for over £5,000. Obviously this isn't reliable regular income and shouldn't have been reviewed by NatWest as getting the account in order as it was unlikely to be repeated. Unlike the harmful gambling activity which was almost guaranteed to result in the loss of funds.

Then in February 2023, Mr L was paid £3,235 but gambled a total of £9,400; nearly three times his monthly salary. His account bounced in and out of credit as the result of occasional gambling wins which were then quickly re-gambled and lost.

Then in March 2023, Mr L applied for the loan from NatWest while his account was overdrawn. Despite NatWest confirming it saw all the gambling activity no one thought it necessary to speak to Mr L or do any level of safeguarding despite it being clear that the volume of gambling on his account was well above average. And the volume of gambling

transactions were extremely unlikely to be representative of someone who was gambling in a mindful or enjoyable way. Once the money from the loan had been deposited into Mr L's account he gambled and lost £5,980 out of the £8,000 he received the first day the funds became available to him.

Having reviewed the way Mr L had been managing his accounts in the months leading up to the loan application I think it was evident that there was a high risk he would use the funds to gamble. And I think it was equally evident he was in a spiral of debt, reliant on credit to repay credit. I don't understand how someone could manually review the same statements and not think there was a genuine risk that the loan would not only not be sustainable, was clearly unaffordable and would also likely cause genuine harm, given how Mr L was behaving.

For those reasons I think the lending decision here caused Mr L genuine harm. And I think that harm was entirely foreseeable. Therefore, I think NatWest's decision to provide Mr L with the loan was irresponsible and potentially even reckless. And for that reason, I think it should write off the remainder of the loan in full.

In response to the above findings Mr L asked if I would direct the bank to remove the loan from his credit file as this is often a direction we give to banks in cases involving irresponsible lending where we find the bank was wrong to provide the loan. I don't think it would be appropriate for me to ask NatWest to remove all evidence of the lending from Mr L's credit file. However, I do think it can remove any negative markers associated with the loan once the write off has been completed.

Putting things right

As stated above, in order to put things right National Westminster Bank Plc should:

- Write off the remaining balance owed on Mr L's loan
- Remove any adverse markers associated with the loan from Mr L's credit file

My final decision

For the reasons set out above, and in my provisional decision, I uphold Mr L's complaint against National Westminster Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 24 May 2024.

Karen Hanlon
Ombudsman