DRN-4823937

Complaint

Mr M has complained about personal loans National Westminster Bank Plc ("NatWest") provided to him. He says that these loans were unaffordable and shouldn't have been provided.

Background

NatWest provided Mr M with a first loan for £1,000.00 in June 2022. The loan had an APR of 29.9% and a term of 12 months. The total amount to be repaid of £1,149.00 was due to be repaid in 11 repayments of £95.40 followed by a final repayment of £99.60. Mr M repaid this loan early in February 2023 with some of the proceeds from loan 2.

Loan 2 was for a total of £7,400.00. As explained, this loan was provided in February 2023. £369.95 of these funds went towards repaying the outstanding balance which remained on loan 1.

Loan 2 had an APR of 28.9% and a term of 48 months. This meant that the total amount to be repaid of £11,908.32, which included interest, fees and charges of £4.508.32, was due to be repaid in 47 monthly instalments of £247.20 followed by a final repayment of £289.92. Mr M settled this loan in full and early in March 2024.

One of our investigators reviewed what Mr M and NatWest had told us. And she thought that NatWest hadn't done anything wrong or treated Mr M unfairly when providing him with either of these loans. So she didn't recommend that Mr M's complaint be upheld.

Mr M disagreed with our investigator's assessment and asked for an ombudsman to look at his complaint.

My findings

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 how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr M's complaint.

Having carefully considered everything, I've not been persuaded to uphold Mr M's complaint. I'll explain why in a little more detail.

NatWest needed to make sure that it didn't lend irresponsibly. In practice, what this means is NatWest needed to carry out proportionate checks to be able to understand whether Mr M could afford to repay before providing him with his loans.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

NatWest says it agreed to Mr M's applications after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit search it carried out. In its view, all of this information showed Mr M could afford to make the repayments he was committing to.

On the other hand, Mr M has said he should never have been provided with these loans.

I've carefully thought about what Mr M and NatWest have said.

The first thing for me to say is that this wasn't simply a case of NatWest accepting over-optimistic declarations of Mr M's monthly disposable income at face value. NatWest's credit searches did show that Mr M had some existing debts. But these weren't excessive and at the time of the applications, at least, they were being well managed.

Given what NatWest's credit search showed, Mr M's income and the headline balance on his current account on each occasion, I'm satisfied that there was no obvious reason for it to question the rest of the information it had obtained during its assessments.

In my view, there didn't appear to be anything that was obviously inconsistent or difficult to explain in the information that had been gathered, or anything else to call into question that the loan payments were not affordable in the way that it looked they were. This is particularly as Mr M said that he was living at home with his parents and he doesn't appear to have had much in the way of regular living costs at the respective times.

In considering whether NatWest was reasonably entitled to lend to Mr M, I've thought about Mr M's arguments in relation to his gambling transactions in the lead up to loan 2. The suggestion here appears to be that NatWest ought to have conducted a full review of Mr M's financial circumstances – i.e. one akin to a mortgage affordability assessment – because Mr M's main bank account was with NatWest.

However, such an approach – of mandating that a full financial review be carried out, irrespective of any other circumstances simply because a customer has their main account with a lender – does not to me, at least, to be in keeping with the principle of carrying out an assessment that is proportionate.

Indeed, I consider that a lender insisting on reviewing a customer's bank statements irrespective of the rest of the circumstances (such as the amount lent, the monthly payments due and what any other information the lender may hold indicates), simply because a customer has a current account with that lender, would be disproportionate. In my view, it would be an example of simply continuing to apply a process to a situation, without taking account of the situation and what else a lender might know about the customer.

So I wouldn't expect a lender to automatically carry out a forensic review of bank statements before lending to a customer, simply because that customer has a bank account with it, in the way that Mr M appears to be suggesting. In my view, whether it would be proportionate to take such a course of action would depend on the rest of the circumstances of the borrowing. I've therefore considered whether the circumstances at the time of loan 2, warranted a full review of Mr M's bank statements.

In this case, given the rest of the information gathered suggested that Mr M was in a reasonable financial position, I don't think that reviewing Mr M's bank statements would have been proportionate here. As explained, Mr M said he was living at home with parents and his repayment record on his existing credit was good. The amount he was borrowing was commensurate to consolidating his debts and NatWest was reasonably entitled to believe that Mr M would do this in the way that he was committing to.

Indeed, by Mr M's own admission he wasn't and hadn't been in arrears, or over his credit limit, on any of his existing accounts. Mr M has referred to making cash withdrawals on a credit card. I don't know if NatWest was aware of this as what Mr M has seen on his full credit file isn't reflective the information provided to a lender at the time of a credit application. But even if NatWest did see this, given everything else gathered suggested that Mr M's finances were stable, I don't think that any cash withdrawals meant that NatWest should have reviewed Mr M's bank statements.

For the avoidance of doubt and the sake of completeness, even though I don't think that NatWest ought to have reviewed Mr M's bank statements, I also think it's worth me pointing out that even if NatWest had seen that Mr M's gambling had increased in the month prior to his application for loan 2, I'm still not necessarily persuaded that this in itself meant that he shouldn't have been lent to, in the way that Mr M is suggesting.

I say this because the spike in Mr M's gambling does appear to have been a one off. It wasn't a consistent pattern of Mr M consistently gambling funds in a way where it is immediately obvious that NatWest ought reasonably to have seen lending to Mr M was harmful or that it would cause him significant adverse consequences.

Furthermore, it isn't clear to me whether Mr M is saying that he shouldn't have been lent to because he had previously gambled, whether he is saying that NatWest lent to him in circumstances where it ought reasonably to have appreciated there was a significant risk that Mr M would gamble the funds and as that risk went on to materialise, NatWest lent irresponsibly; or whether he's making both of these arguments. In any event, I'll address both of these potential arguments.

If I were to take Mr M's first potential argument to its logical conclusion, this would effectively mean that a lender should never lend to prospective borrower that has previously gambled, irrespective of their individual circumstances. However, for reasons I've already explained, applying such an approach would not be proportionate and is unlikely to be fair and reasonable. I say this especially as an outright prohibition on lending to an individual who has previously gambled does not exist in the regulator's rules and guidance for lenders.

In relation to Mr M's second potential argument, his current account statements clearly show that he used the proceeds of loan 2 to clear his first NatWest loan, repay a credit card and also pay a number of individuals. So it appears as though that rather than using the proceeds of loan 2 to gamble, Mr M did in fact primarily use the loan proceeds to consolidate his existing debts as he told NatWest that he would. I don't rule out the possibility that Mr M went on to establish other debts and the proceeds of them may have been lost to gambling.

But, in truth, that has nothing to do with NatWest or these loans and I'm satisfied that Mr M did not gamble the proceeds of loan 2. And if I were to uphold Mr M's complaint on this basis it would be on the grounds that Mr M could have used the proceeds of this loan to gamble even though that's not what he in fact did. I'd therefore effectively be upholding the complaint on the basis of something that could have happened, rather than what actually happened. I don't think that this would be fair and reasonable, or a rational basis upon which for me to uphold the complaint.

Given the payments here were affordable, loan 2 was a first consolidation loan (and the loan was used for this purpose) I'm satisfied that NatWest was not only reasonably entitled to believe that Mr M could make the payments, but also that it wouldn't be increasing Mr M's existing indebtedness in a way that was unsustainable or otherwise harmful. As this is the case, I don't think that Mr M's gambling in the lead up to loan 2 means that NatWest acted unfairly in lending to Mr M.

So overall and having considered everything, I don't think that NatWest treated Mr M unfairly or unreasonably when providing him with either of his loans. It carried out reasonable and proportionate checks which showed the loan payments to be affordable. And I'm therefore not upholding Mr M's complaint. I appreciate this will be very disappointing for Mr M. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 15 July 2024.

Jeshen Narayanan
Ombudsman