

The complaint

Mrs H is complaining about National Westminster Bank Plc because she says it acted irresponsibly when giving her a credit card she couldn't afford and then increasing the credit limit.

What happened

In June 2021, following her application, Mrs H was approved for a NatWest credit card with a starting credit limit of £5,050. This was increased to £6,100 in December 2022.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be partly upheld. My reasons were as follows:

Before lending to Mrs H, NatWest was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of each lending decision are:

- *Did NatWest complete reasonable and proportionate checks to establish that Mrs H would be able to repay the credit in a sustainable way?*
- *If so, was the decision to lend fair and reasonable?*
- *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*

The rules, regulations and good industry practice in place at the time the credit was approved required NatWest to carry out a proportionate and borrower-focused assessment of whether Mrs H could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant NatWest had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of her making payments, it had to consider the impact of the repayments on Mrs H.

The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.

NatWest has described the information it gathered to assess whether Mrs H's credit was affordable before it was approved. This included:

- *information contained in her original application, including her income;*

- *information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit, including missed payments and defaults; and*
- *an expenditure assessment using a combination of modelled data for key expenses, along with actual data from the CRA about the cost of her existing credit arrangements.*

NatWest maintains its affordability assessments were proportionate to the credit being given and demonstrated it was affordable. I'll now look at each lending decision in turn:

Account opening – June 2021

NatWest says Mrs H declared her income as £1,863 per month, which it accepted without separate verification, and that she was living in rented accommodation with three dependants. Data obtained from the CRA showed she had existing debt of £11,7000 and that she was up to date with payments on these accounts, with no recent delinquencies, defaults or county court judgements.

Mrs H says she wasn't working at the time and it's not clear whether this information was included in her application. But either way, I think further checks were required to complete a proportionate affordability assessment in this case. I say this primarily because the credit limit being offered was high and no steps were taken to verify the income declared in Mrs H's application. The level of her existing debt was also relatively high as a proportion of the declared income.

I can't know exactly what further checks NatWest might have carried out at the time, but I think a consideration of Mrs H's actual income and expenditure would have been reasonable. So we've obtained copies of her bank statements – for the joint current account held with her husband and for her own account – for the period prior to the lending to establish what information could reasonably have been discovered.

A review of the statements shows Mrs H's income came entirely from benefits but was consistent with the £1,863 declared in her application. The statements do show Mrs H was making a regular payment to StepChange, which I understand was part of a payment management plan relating to previous debt. But she has said this dated back to 2009 when she stopped working and there's nothing in the credit check completed by NatWest or the bank statements provided to suggest she'd fallen into similar problems since. This aside, the statements show the account were managed reasonably well, mostly retaining a positive balance. If NatWest had seen this information at the time, I think it would have been entitled to believe repayments on the new credit card were affordable and that the decision to lend was ultimately reasonable.

With these points in mind, I'm not currently proposing to uphold this part of the complaint.

Credit limit increase in December 2022

Again, I think NatWest should have carried out more detailed checks before granting an increase to what was already a high credit limit. In particular, I'm mindful it had no evidence Mrs H's income had increased since the account was opened and CRA data showed her existing debt had nearly doubled to £22,000, which should have suggested her outgoings had also increased.

Again, we've obtained copies of Mrs H's bank statements for the period before the limit was increased to establish what NatWest could reasonably have discovered. These show Mrs H was still dependent on benefits and that her income was much the same as

it had been when the card was issued. They also show clearer signs of potential financial difficulty. In addition to higher total repayments as a result of the increased debt, I also note Mr and Mrs H had been making regular use of their overdraft facility.

If NatWest had seen this information, when combined with the large increase in her overall debt in a comparatively short period of time, it's my view that it shouldn't have increased the credit limit. With this in mind, I'm currently proposing to uphold this part of the complaint.

In summary

In summary, if NatWest had adequately assessed whether the credit repayments were affordable and sustainable for Mrs H, I think it would have been entitled to believe the original decision to lend was reasonable. But when considering the decision to increase the credit limit, I think proportionate checks should have led NatWest to conclude further lending wasn't appropriate. It's for this reason that that I'm partially upholding this complaint.

In response, NatWest said it had nothing further to add. Mrs H didn't accept my provisional decision and commented that she and her husband were having to use their overdraft to keep up with living costs and debt repayments even when she initially applied for the card. She says their debt at that time was unsustainable.

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.

Having done so, my findings haven't changed from those I set out previously. I've noted Mrs H's most recent comments, but it remains my view that a more detailed affordability assessment at the time would have shown repayments on the initial credit limit were affordable and that the decision to give her a card was therefore reasonable. This notwithstanding, I don't believe the limit should have been increased in 2022 and that's the reason I'm partly upholding this complaint.

Putting things right

The principal aim of any award I make must be to return Mrs H to the position she'd now be in but for the errors or inappropriate actions of NatWest. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think NatWest should have increased the credit limit in December 2022, I don't think it's fair for her to pay interest or charges on any amount borrowed above the original limit of £5,050. But she has had use of the money that was lent, so I think it's fair she repays the amount borrowed (without the addition of interest or charges).

To put things right, NatWest should take the following steps:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since the limit increase in December 2022 on balances over £5,050.
- If the reworking results in a credit balance, this should be paid to Mrs H with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires NatWest to deduct tax from any interest. It must provide Mrs H with a certificate showing how much tax has been deducted if she asks for one. If NatWest intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- Or, if after the reworking there's still an outstanding balance in excess of £5,050, NatWest should arrange an affordable payment plan with Mrs H for the shortfall.
- Remove any adverse information recorded on Mrs H's credit file after December 2022 relating to this credit, once any outstanding balance over £5,050 has been repaid.

If NatWest no longer owns the debt, it should liaise with whoever does to ensure any payments Mrs H has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement to this complaint.

My final decision

For the reasons I've explained, I'm partly upholding Mrs H's complaint. Subject to her acceptance, National Westminster Bank Plc should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 8 July 2024.

James Biles
Ombudsman