

The complaint

Ms M complains that The Royal Bank of Scotland Plc (“RBS”) lent to her irresponsibly.

What happened

In July 2023 Ms M complained that when she applied for credit in January 2016, she was already struggling financially. She said she already had credit with RBS at the time and was only making minimum repayments. She said she couldn’t repay the credit in a reasonable period of time and therefore RBS shouldn’t have provided her with more.

Ms M has asked for a refund of all interest and charges, as well as any late payment markers and defaults to be removed from her credit report.

In August 2023, RBS responded to Ms M’s complaint. It said Ms M completed two applications – the first in March 2014 for a credit card with £5,200 credit limit. The second was in January 2016 and the credit limit was for £9,400.

It said credit card applications are subject to automatic assessments which interact with credit reference agencies, and this is how Ms M’s affordability was assessed. It said while it can’t divulge the specifics of how the affordability score is calculated, it’s satisfied it followed the right checks when processing her applications.

Ms M was unhappy with the response, so she brought the complaint to our service, but she’s made it clear she is only complaining about the second credit card – the one issued in January 2016. She also told us that she’s been in debt for a long time, and money mismanagement is a symptom of ADHD which she was, at the time of bringing the complaint, undergoing a diagnosis for.

An Investigator here looked into everything and they found that RBS’ checks weren’t proportionate and it hadn’t gathered enough information to ascertain whether or not the lending was affordable for Ms M. They felt the management of the first card as well as the external data received was a cause for concern. However, they asked for Ms M about information on her current account statements to try and piece together her income and expenditure, but because Ms M didn’t respond, they were unable to say the lending was unaffordable.

Ms M disagreed with the opinion. She said some of the money would’ve been inheritance that was earmarked for home improvements, and smaller transfers in would’ve been her husband’s salary. She’s tried to get the statements from the other provider but has been unable to.

As an agreement couldn’t be reached, the case was passed to me to decide. I previously issued a provisional decision which said the following:

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

Having carefully considered everything, I'm not currently minded to uphold Ms M's complaint. I'll explain why in more detail below.

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 Ms M's complaint. RBS needed to make sure it didn't lend irresponsibly. In practice, what this means is RBS needed to carry out proportionate checks to be able to understand whether Ms M could afford to repay any credit it provided.

One of the things set out on our website is what we typically think about when deciding whether a lender's checks were proportionate. Generally, we don't think that it is necessarily unreasonable for a lender's checks to be less detailed – 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 show that it didn't continue to lend to a customer irresponsibly.

RBS said Ms M's application was automatically approved after she input information about her income and expenditure and required no manual review of the application. It said its systems interact with the credit referencing bureaus and it was decided the credit was affordable for Ms M.

Ms M said she shouldn't have been lent to because she was struggling financially at the time, and this was evident from a card she already had with RBS that she was making minimum repayments on.

I've considered what both parties have said.

It's important to note that RBS was providing Ms M with a revolving credit facility. And this means RBS was required to understand whether a credit limit of £9,400 could be repaid within a reasonable period of time, rather than in one go. A credit limit of £9,400 would require quite large monthly repayments in order to clear the full amount that could be owed within a reasonable period of time.

While I consider this alongside how Ms M was managing the existing card with RBS, I don't think the checks RBS carried out were proportionate. RBS says Ms M completed the application declaring an income of around £1,800 per month. RBS says it also asked for expenditure such as rent/mortgage repayments and other credit commitments. It said the outcome of the assessment showed Ms M had around £650 each month left in disposable income. I think, because Ms M would need to allocate a significant portion of that remaining £650 towards repaying the new credit card with RBS, it should've done more to verify the income and expenditure was accurate, and check that Ms M could sustainably repay the new line of credit.

Before I outline what proportionate checks would've likely shown, I think it's important to note that Ms M transferred the balance from her existing RBS card to the new one. Ms M's first card had a monthly interest rate of around 1.3% while the new card offered her a monthly interest rate of around 0.56% for balance transfers. While the interest rate on the new card was lower than the original, it wasn't interest free and so I can't comfortably say the benefits of transferring the balance over outweighed the need for full and thorough checks.

Because Ms M would need to make repayments of around £300 a month to repay the credit in a reasonable period of time and to ensure she's paying more than the minimum, keeping

her out of persistent debt, I think RBS should've completed a full income and expenditure assessment with Ms M. Ms M's information collated at application showed she had a disposable income of £650 without the new card repayments. The best way for us to know now what further checks would've likely shown at the time is to review Ms M's current account statements from around the time the lending was provided.

I've reviewed Ms M's current account statements from around the time of the lending (September 2015 – January 2016), and based on what I've seen, I think it's likely that had RBS completed a full income and expenditure, it still would have lent to Ms M. I say this because she was roughly in receipt of the wage she declared at application, her account generally had a healthy balance – there were occasions she went into an overdraft but it was used as expected, for short-term emergency use – and she was managing to transfer significant amounts into savings over this period of time. So based on what I've seen here, I'm minded to say RBS' decision to lend was fair.

Did RBS act unfairly in any other way?

I understand Ms M has told us she was struggling financially, but I can't see anything in relation to this card that would put RBS on notice of this. I understand there was a late payment in 2016, but this alone isn't enough to put RBS on notice of financial difficulties, and I can see RBS had a conversation with Ms M about this. If Ms M needs help, I encourage her to get in touch with RBS, and I remind RBS of their duty to treat customers with forbearance.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think RBS lent irresponsibly to Ms M or otherwise treated her unfairly. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here."

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.

RBS responded to the provisional decision letting us know they accept the findings. But Ms M hasn't responded, so I've assumed she has nothing further to add.

I appreciate how disappointing this is for Ms M but given that both parties haven't provided any new information to this service, I see no reason to depart from the findings I reached in my provisional decision.

It follows that I'm not upholding Ms M's complaint – RBS didn't complete proportionate checks, however their decision to lend was still fair based on the additional information we received about Ms M's circumstances at the time.

My final decision

It's my decision that I do not uphold this complaint about The Royal Bank of Scotland Plc ("RBS").

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 6 February 2025.

Meg Raymond
Ombudsman