

Complaint

Miss B has complained about a loan National Westminster Bank Plc (“NatWest”) provided to her. She says that it ought to have been clear from her lending history with the bank that she shouldn’t have been lent to.

Background

Miss B has also complained about her overdraft and a credit card with NatWest. However, we’ve explained that we’re looking at that matter separately and this decision is only considering whether NatWest acted fairly and reasonably when providing her with her loan.

NatWest provided Miss B with a loan for £13,500.00 in April 2022. It had an APR of 17.4% and a 72-month term. This meant that the total amount to be repaid of £21,179.52, which included interest, fees and other charges of £7,679.52, was due to be repaid in 72 monthly repayments of £294.16.

One of our investigators reviewed what Miss B and NatWest had told us. And she thought that NatWest hadn’t lent irresponsibly. So she didn’t uphold Miss B’s complaint.

Miss B disagreed and asked for an ombudsman to look at her 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 Miss B’s complaint.

Having carefully considered everything, I’m not upholding Miss B’s complaint. I’ll explain why in a little more detail.

NatWest needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice, what this means is that NatWest needed to carry out proportionate checks to be able to understand whether Miss B could afford to make her repayments before providing this loan.

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 provide loans to a customer irresponsibly.

NatWest says it approved Miss B's application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked this against statistical data and information on a credit search it carried out which showed Miss B's had some debts but that her existing commitments were relatively well maintained at the time.

In NatWest's view all of the information it gathered showed that Miss B could afford to make the repayments she was committing to. On the other hand, Miss B has said that her existing lending history meant that she shouldn't have been lent to. I've carefully thought about what Miss B and NatWest have said.

As NatWest asked Miss B about her income and expenditure and also carried out a credit check, it's clear that NatWest did obtain a reasonable amount of information before it decided to proceed with Miss B's application.

It's clear Miss B had some existing debts. However, the information from the time appears to indicate that the purpose of this loan was debt consolidation. It's possible that Miss B went on to re-establish balances on the accounts that she cleared. But NatWest won't have known whether Miss B might do this – all it could do was take reasonable steps and rely on assurances from Miss B that this would be done with the funds from this loan.

Equally, as this was a first loan NatWest was providing to Miss B for debt consolidation purposes, there wasn't a history of Miss B obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. So NatWest was reasonably entitled to believe that Miss B would be left in a better position after being provided with this loan. Indeed, from what I can see Miss B did go on to settle a loan elsewhere, a credit card balance and there were enough funds left over for to exit her overdraft as well.

I've also considered what Miss B's usage of her overdraft. While it's fair to say that Miss B had been using her overdraft, providing a loan with fixed payments, at a lower rate of interest than the overdraft, is typically a fair and reasonable way for a bank to help a customer out of persistent overdraft use.

For the sake of completeness and with a view to providing Miss B with some reassurance, it may help for me to explain that Miss B's overdraft complaint will cover whether it was reasonable for NatWest to allow her to keep the facility after she was provided with this loan. So I don't think that any arguments in relation to Miss B's overdraft usage after the loan was provided are relevant in the context of this complaint. And more importantly, I don't think that that Miss B's overdraft usage is a reason for this complaint being upheld.

There is an argument to say that, at the absolute most, NatWest ought to have found out more about Miss B's actual regular living expenses, rather than relying on what Miss B said about this, bearing in mind the monthly payment and the term of this loan.

Where a firm failed to carry out reasonable and proportionate checks before providing credit to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information provided to get an idea of what NatWest is likely to have learned if it had found out more about Miss B's actual regular living expenses. In particular, I've looked at Miss B's current account statements for the period leading up to the loan application.

The statements provided do appear to show that when Miss B's regular living costs and monthly expenditure are deducted from what she received, Miss B does appear to have enough in funds left over to make the repayments needed for this loan. This is particularly the case when the payments to the debts which should have been consolidated are removed from Miss B's expenditure as they should be.

As this is the case, I don't think that NatWest did anything wrong when providing this loan to Miss B - it is arguable that it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable. But even if NatWest had asked Miss B for more information about her regular living costs and contractually committed expenditure here this wouldn't have made a difference to its decision to lend.

In my view, this would simply reinforced the notion that if Miss B did go on to repay her existing debts with the proceeds from this loan as her recorded loan purpose said she would, she would have been in a significantly better financial position.

In reaching my conclusions, I've also considered whether the lending relationship between NatWest and Miss B might have been unfair to Miss B under s140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think NatWest irresponsibly lent to Miss B or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to suggest that s140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

So overall and having considered everything, I'm satisfied that NatWest didn't treat Miss B unfairly or unreasonably when lending to her. And I'm not upholding Miss B's complaint. I appreciate this is likely to be very disappointing for Miss B. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Miss B's complaint, I would remind NatWest of its obligation to exercise forbearance and due consideration, given what Miss B has now said about her position, should Miss B be experiencing financial difficulty making her payments going forward when collecting these payments from her.

My final decision

For the reasons I've explained, I'm not upholding Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 3 January 2025.

Jeshen Narayanan
Ombudsman