

Complaint

Mr O has complained about credit cards and the subsequent credit limit increases National Westminster Bank Plc ("NatWest") provided to him. He says he was provided with credit cards and limit increases despite the fact that his credit reports would have shown that he had significant existing debt and further credit was unaffordable.

Background

Mr O has also complained about a number of personal loans which NatWest provided him with. That complaint is being looked at separately and this decision is only considering whether NatWest acted fairly and reasonably towards Mr O in relation to his credit cards. Where I refer to Mr O's loans, I do so only in relation to their existence and I make no findings regarding that credit in this provisional decision.

NatWest provided Mr O with three credit cards. As far as I can see, Mr O's credit card history with NatWest is as follows:

Card A was provided to Mr O in August 2012 with an initial credit limit of £2,250.00. In December 2013 this limit was increased to £3,000.00 and then in September 2022 the credit limit was increased to £3,900.00.

Card B was provided to Mr O in February 2014 with an initial credit limit of £3,000.00. There were no credit limit increases on this credit card.

Card C was provided to Mr O in October 2018 with an initial credit limit of £3,100.00. There were no credit limit increases on this credit card. However, it is my understanding that the credit limit on this card was decreased to £1,000.00 in April 2021.

It is my understanding that all three of these accounts remain open.

One of our investigators reviewed what Mr O and NatWest had told us. And she thought NatWest hadn't done anything wrong or treated Mr O unfairly. So she didn't think that Mr O's complaint should be upheld.

Mr O disagreed and asked for an ombudsman to look at the complaint.

My provisional decision of 17 December 2024

I issued a provisional decision – on 17 December 2024 - setting out why I was intending to partially uphold Mr O's complaint.

In summary, I was intending to conclude that NatWest did not act unfairly or unreasonably to Mr O when providing him with Card A and the first limit increase as well as Card B, as I didn't think that reasonable and proportionate checks would have shown that the payments necessary to clear what Mr O could owe within a reasonable period of time was unaffordable.

However, I also concluded that reasonable and proportionate checks are more likely than not to have shown NatWest that Mr O was unable to repay what he could owe, as a result of being given the final credit limit increase on Card A and being provided with Card C, within a reasonable period of time.

Mr O's response to my provisional decision

Mr O confirmed that he accepted my provisional decision and that he had nothing further to add ahead of my final decision.

NatWest's response to my provisional decision

NatWest also confirmed that it accepted my provisional decision and that it had nothing further to add ahead of my final decision.

My findings

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

I thank the parties for their responses to my provisional decision and I am pleased to see that they have both agreed with my conclusions in full. As this case, I see no reason to depart from the conclusions of my provisional decision to partially uphold Mr O's complaint. I'll therefore simply, in full, restate my reasons for partially upholding Mr O's 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 O's complaint.

NatWest needed to make sure 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 O could afford to repay any credit it provided.

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 O's applications after it obtained information on his income and carried out a credit searches. And the information obtained indicated that Mr O would be able to make the monthly repayments due for these credit cards.

On the other hand Mr O says that he shouldn't have been lent to and the credit was provided at a time when was already significantly indebted.

I've considered what the parties have said.

Did NatWest carry out reasonable and proportionate checks before its initial decision to provide Card A to Mr O?

What's important to note is that Mr O was provided with a revolving credit facility rather than a loan. And this means that to start with NatWest was required to understand whether a credit limit of £2,250.00 could be repaid within a reasonable period of time, rather than all in one go. A credit limit of £2,250.00 didn't require especially large monthly payments in order to clear the full amount that could be owed within a reasonable period of time.

NatWest hasn't been able to provide the results of any the credit checks that it carried out when it initially agreed to provide Mr O with Card A in August 2012. But given just how long ago this application was, I don't think that is too surprising. In any event, having been given some information on Mr O's income at the time, I'm satisfied that a declaration of income is likely to have been sufficient for NatWest to have determined that a credit of £2,250.00 was affordable for Mr O.

As this is the case, I find that the checks NatWest carried out before initially providing Mr O with Card A were more likely than not reasonable and proportionate.

Did NatWest carry out reasonable and proportionate checks before granting the first credit limit increase in December 2013

For the first credit limit increase, it appears as though NatWest mainly relied on Mr O's account management in the period leading up to December 2013. A lender is entitled to consider its previous dealing with a customer as part of its affordability checks. So I don't think that it was unreasonable for NatWest to consider Mr O's account history when determining whether to increase his credit limit.

However, I'm not necessarily persuaded that Mr O's account had been managed particularly well or that this in itself was an indication that he could sustainably repay a further £750. This is especially as it appears as though Mr O was over his existing credit limit in July 2013. That said, I can see that from September 2013 onwards Mr O not only brought back Card A within its limit, Mr O was actually making payments consistent with what would be required to repay a credit limit of £3,000.00 within a reasonable period of time.

In these circumstances and while I accept that NatWest needed to monitor the account after the limit increase to check that Mr O was managing the additional credit that would be available to him reasonably, I'm just about persuaded that it is more likely than not that NatWest's checks before it agreed to increase Mr O's credit limit in December 2013 were reasonable and proportionate.

As this is the case, I find that the checks NatWest carried out before increasing Mr O's credit limit on Card A to £3,000.00 were reasonable and proportionate and I'm not intending to uphold this part of the complaint.

Did NatWest carry out reasonable and proportionate checks before agreeing to the second credit limit increase in September 2022

NatWest's checks in September 2022 appear to be similar to the ones it previously carried out. This is despite the fact that Card B and Card C had been provided since the first limit increase on Card A. By this stage, Mr O had also taken out 12 loans with NatWest as well.

For this credit limit increase NatWest has been able to provide the results of its credit searches on Mr O. I accept that these credit searches showed that Mr O did not have any defaults or county court judgments ("CCJ") recorded against him. But these credit checks also appear to show that Mr O had existing unsecured debt of £70,000.00 and was utilising 92% of the credit available to him.

It's also my understanding that Mr O also had two mortgages at this point as well. I don't know whether NatWest asked Mr O about his income at this stage, but it's fair to say that he was heavily indebted. As I've said, NatWest doesn't appear to have done anything more before agreeing to provide Mr O with this limit increase. This is despite the fact that what it did know about Mr O, showed that he owed significantly more than he did at the time of the previous lending decisions on this card.

In these circumstances, I find that NatWest failed to carry out reasonable and proportionate and proportionate checks before agreeing to provide the final credit limit increase on Card A in October 2022.

Did NatWest carry out reasonable and proportionate checks before its decision to provide Card B to Mr O?

Mr O was provided with card B in February 2014. While Card B had a limit of £3,000.00 this was an additional revolving credit facility, provided while Mr O already had £3,000.00 available to him on Card A. So NatWest was in effect required to understand whether Mr O could repay £6,000.00 within a reasonable period of time.

NatWest hasn't been able to provide the results of its credit searches from this time. Once again, as this involves the retention of information from almost ten years ago, I don't think that this is surprising. So once again, I've not drawn adverse inferences from the lack of this information.

That said, when reaching my conclusion regarding whether NatWest's checks before providing the first limit increase on Card A were reasonable and proportionate, I said that NatWest was entitled to take account of Mr O's existing borrowing history. I also said that while NatWest's checks before providing the first limit increase on Card A were just about on the right side of being reasonable and proportionate, NatWest needed to be aware of Mr O's management of Card A going forward.

While NatWest provided a new card in Card B, in February 2014, instead of increasing the credit limit on Card A, I still think how Mr O managed Card A in the aftermath of the limit increase to £3,000.00 is a relevant consideration here. I can see that Mr A pretty much immediately used the extra credit made available to him on Card A. He bounced around the £2,900.00 plus mark right up to his application for Card B.

As this is the case, I think that NatWest needed to find out more about Mr O's actual circumstances before agreeing to provide him with Card B. It needed to get an understanding of Mr O's actual income and living expenses in order to understand whether there was a risk that he'd quickly use any extra credit (in the form of Card B), in the same way that he'd done so when extra credit was made available to him on Card A.

I can't see that NatWest did do this, or that it did anything more than it had done when it initially agreed to provide Mr O with Card A as well as the first credit limit increase. This is despite the fact that Mr O was clearly displaying the traits of a repeat borrower – particularly when his loan applications are taken into account.

As this is the case, I find that NatWest did not complete fair, reasonable and proportionate affordability checks before agreeing to provide Card B to Mr O.

Did NatWest carry out reasonable and proportionate checks before providing Card C?

NatWest has been able to provide more detail in the information that it obtained from Mr O prior to agreeing to provide Card C. It says that Mr O said he had a monthly income of

£2,600.00. It says that it then deducted £422 for Mr O's housing costs, £641 for his living costs, £423 for his existing loan payments and £125 to his existing credit cards. In its view, this left Mr O with over £900 in surplus funds and this meant that Mr O could easily afford to make the repayments to Card C.

However, while Card C had a limit of £3,100.00 this was an additional revolving credit facility provided while Mr O already had around £6,000.00 available to him on Card A and Card B. So, on this occasion, NatWest was in effect required to understand whether Mr O could repay £9,000.00 within a reasonable period of time.

NatWest has been able to provide far more information on the results of its credit checks for this application. It has highlighted sections of the credit check which show that Mr O didn't have any CCJs recorded against him and that he didn't have any delinquent accounts. It says that it did this in order to highlight the most important information.

However, this information suggests Mr O had existing unsecured debt balances of £35,900.00. This, according to NatWest's own records, meant he had a debt-to-income ratio of 92%. Furthermore, Mr O had applied for a loan of £19,000.00 from NatWest a matter of weeks earlier. I'm also mindful that Mr O had a mortgage. So it's clear that Mr O not only had significant debts, he'd also taken out a substantial amount of credit in a short space of time.

As this is the case, I think that NatWest needed to get an understanding of Mr O's actual income and expenditure, rather than rely on declarations and estimates, in order to understand why he felt the need to apply for so much credit in such a short period of time. And if it didn't obtain plausible and persuasive reasons for why this was necessary and assurances that Mr O could repay any further credit, it should have refused to lend.

I can't see that NatWest did do this, or that it took any additional steps to account for the fact that Mr O was clearly now a repeat borrower. As this is the case, I find that NatWest did not complete fair, reasonable and proportionate affordability checks before agreeing to provide Card C to Mr O either.

Would reasonable and proportionate checks have indicated to NatWest that Mr O would have been unable to repay the final limit increase granted on Card A, Card B and Card C?

As reasonable and proportionate checks weren't carried out before the final credit limit increase was provided on Card A, as well as Card B and Card C, I can't say for sure what they would've shown. So I now need to decide whether it is more likely than not that proportionate checks, would have told NatWest that Mr O would have been unable to sustainably repay the final limit increase on Card A, as well as Card B and Card C.

For the sake of clarity, I've decided to consider what proportionate checks are more likely than not to have shown at the time of the respective lending decisions in chronological order, rather than in card order.

The decision to provide Card B in February 2014

As I've explained, I think that NatWest needed to find out more about Mr O's actual living expenses before agreeing to provide Card B to him. There was the potential for him to owe £6,000.00 as a result of being provided with this card in addition to Card A.

However, having looked at the bank statements Mr O has provided to us, I can't see anything obvious in them which indicate Mr O wouldn't have been able to make the repayments to Card B.

Indeed, when Mr O's actual discernible living expenses on these statements are added to Mr O's other committed expenditure and then deducted from his income, he appears to have had the disposable income to be able to make the repayments that could have been required had he used the credit card. So Mr O's actual living expenses don't obviously seem out of kilter with any assumptions that NatWest might have made at this time and don't appear to have skewed matters.

As this is the case, I find that NatWest didn't act unfairly when agreeing to provide Card B to Mr O. In my view, proportionate checks would more likely than not have suggested that Mr O could make the repayments to repay the full amount he could owe, if used Card B to its limit, within a reasonable period of time. And I think that it is unlikely – and certainly less likely than not - that such checks would have prevented NatWest from lending in these circumstances.

So overall and having carefully considered everything, I've not been persuaded that proportionate checks would have shown that NatWest that Card B was unaffordable for Mr O. And I'm not upholding the complaint about Card B notwithstanding the fact that reasonable and proportionate checks were not carried out prior to it being provided.

The decision to provide Card C in October 2018

The rules and guidelines in place at this time meant that NatWest was required to establish whether Mr O could make his credit card repayments without experiencing significant adverse consequences – not just whether these repayments payments were technically affordable on a strict pounds and pence calculation.

I've already explained that Mr O had been provided with a loan for £19,000.00 by NatWest a mere matter of weeks before the application for Card C and that this ought to have led to it getting an understanding of why Mr O needed so much credit in such a short period of time. Indeed this was at a time where NatWest's own checks showed that Mr O had a debt-to-income ratio of 92%. In my view, any reasonable attempt to gain clarity on Mr O's circumstances would have seen NatWest ascertain that Mr O's outgoings exceeded his income.

I'm also mindful that Mr O had also just taken out a hire-purchase agreement which does not appear to have shown on NatWest credit checks, but nonetheless required Mr O to pay just under £400 a month. NatWest may question the wisdom of Mr O's decision to enter into a hire-purchase agreement in circumstances where he was already significantly indebted.

While I would not be wholly unsympathetic to such an argument, I nevertheless have to consider that this information wasn't hidden or concealed, it was clearly apparent in Mr O's NatWest bank statements. Therefore, I'm satisfied that a detailed understanding of Mr O's circumstances, which was necessary given everything I've explained that NatWest needed to be thinking about at the time, would have led to NatWest discovering this.

Taking everything I've set out above together, I think that reasonable and proportionate checks would more likely than not have demonstrated that Mr O was in a cycle of repaying credit by borrowing further. This according to the regulator's rules and guidance was (and still remains) by its own definition unsustainable.

So, in my view, reasonable and proportionate checks are more likely than not to have shown NatWest that Mr O could not sustainably repay what he could owe on Card C and that it shouldn't have provided Card C to Mr O. As this is the case, I'm upholding Mr O's complaint about Card C.

The decision to increase the credit limit on Card A in September 2022

There is an argument for saying that as I don't think that NatWest should have provided Card C to Mr O, it follows that it shouldn't have provided the final limit increase on Card A to Mr O. I say this especially as NatWest's credit checks also appear to show that Mr O was even more indebted than he was when he was provided with Card C in October 2018. In September 2022 Mr O had existing unsecured debt of £70,000.00 and was utilising 92% of the credit available to him.

I also have to take into account the overall circumstances here and it is fair say that Mr O's pattern of borrowing was, at the very least, unusual and arguably erratic. I don't think that an individual taking out twelve loans and three separate credit cards with the same lender is typical. This is without even taking into account the sheer amount of Mr O's applications for credit elsewhere.

So I think that by the time of this final credit limit increase, NatWest ought to have got to the bottom of the erratic nature of Mr O's borrowing. I don't think that NatWest should have granted this increase until it received this clarity on Mr O's position. I say this especially as Mr O had the potential to accrue a total balance of up to approaching £8,000.00 across NatWest credit cards. I think that if NatWest had done this it is likely to have found out that Mr O's existing credit commitments meant that he was in no position to sustainably repay even more credit.

In the alternative and in conjunction with my findings above, I'm also satisfied that NatWest provided the final credit limit increase on Card A, in circumstances where it ought reasonably to have realised that it was increasing Mr O's indebtedness in a way that was likely to be unsustainable or otherwise harmful for him. And this in itself means that NatWest failed to act fairly and reasonably to Mr O when it agreed to increase his credit limit on Card A to £3,900.00 in October 2022.

As this is the case, I'm upholding Mr O's complaint about the final credit limit increase on Card A which was provided in October 2022.

Conclusions

Overall and having carefully thought about everything, I find that:

- NatWest *did* complete reasonable and proportionate checks on Mr O to satisfy itself that he was able to sustainably repay what he could owe within a reasonable period of time, when it provided him with Card A in August 2012 and the first credit limit increase in December 2013.
- NatWest *did not* carry out reasonable and proportionate checks on Mr O to satisfy itself that he was able to sustainably repay what he could owe within a reasonable period of time, when it provided him with the final limit increase on Card A in September 2022, as well as Card B in February 2014 and Card C in October 2018;
- NatWest is likely to have concluded that the repayments required to repay what could be owed on Card B, within a reasonable period of time, were more likely than not to have been affordable for Mr O, in February 2014;
- reasonable and proportionate checks are more likely than not to have shown NatWest that Mr O was unable to repay what he could owe, as a result of the final credit limit on Card A and being provided with Card C, within a reasonable period of

time. In addition to this, NatWest ought fairly and reasonably to have realised that the final credit limit increase to Card A was unsustainable or otherwise harmful for Mr O and so shouldn't have provided it, as it would more likely than not unfairly and excessively increase his overall indebtedness.

Bearing in mind all of the above, I find that NatWest unfairly and unreasonably provided the final limit increase on Card A as well as Card C to Mr O and that it should now put things right.

In reaching these conclusions, I've also considered whether the lending relationship between NatWest and Mr O, in respect of these credit cards, might have been unfair to Mr O under section 140A of the Consumer Credit Act 1974.

However, I'm satisfied that what I direct NatWest to do, in the following section of this final decision, results in fair compensation for Mr O given the overall circumstances of his complaint. I'm also satisfied that, based on what I've seen, no additional award is appropriate in this case.

Fair compensation – NatWest needs to do to put things right for Mr O

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Mr O's complaint for NatWest to put things right by:

Card A

- Reworking Mr O's current credit card balance to ensure that from October 2022 onwards interest is only charged on the first £2,975.00¹ outstanding - to reflect the fact that the third credit limit increase should not have been provided. All late payment and over limit fees should also be removed;

AND

- If an outstanding balance remains on Card A once these adjustments have been made NatWest should contact Mr O to arrange a suitable repayment plan, Mr O is encouraged to get in contact with and cooperate with NatWest to reach a suitable agreement for this.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance on Card A, then any extra should be treated as overpayments and returned to Mr O along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then NatWest should remove any and all adverse information it has recorded from Mr O's credit file. NatWest can also reduce Mr O's credit limit by the amount of compensation it awards, as long as doing so wouldn't leave Mr O's balance above any new credit limit.

Card C

¹ It looks like the credit limit was reduced from £3,000.00 to £2,975.00 in July 2014. Mr O's June 2014 credit card statement shows that he had a credit limit of £3,000.00 and his July 2014 credit card statement shows the credit limit as £2,975.00. The reason for this minor change isn't clear.

- Reworking Mr O's current credit card balance to ensure that all interest, fees and charges added from the outset are refunded. This is to reflect the fact that this card shouldn't have been provided at all to Mr O. All late payment and over limit fees should also be removed;

AND

- If an outstanding balance remains on Card C once these adjustments have been made NatWest should contact Mr O to arrange a suitable repayment plan, Mr O is encouraged to get in contact with and cooperate with NatWest to reach a suitable agreement for this.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance on Card C, then any extra should be treated as overpayments and returned to Mr O along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then NatWest should remove any and all adverse information it has recorded from Mr O's credit file. NatWest can also reduce Mr O's credit limit by the amount of compensation it awards, as long as doing so wouldn't leave Mr O's balance above any new credit limit.

† HM Revenue & Customs requires NatWest to take off tax from this interest. NatWest must give Mr O a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained above and in my provisional decision of 17 December 2024, I'm uphold Mr O's complaint in part. National Westminster Bank Plc should put things right in the way I've directed it to do so above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 14 February 2025.

Jeshen Narayanan
Ombudsman