

The complaint

Miss C says JN Bank UK Ltd irresponsibly lent to her.

What happened

Miss C took out a loan for £7,800 over 60 months from JN Bank in March 2022. The monthly repayments were £184.32. Miss C says JN Bank should never have approved the loan as it was unaffordable for her and led to her borrowing more. It meant her financial situation deteriorated further leaving her trapped in a cycle of debt.

JN Bank says based on what Miss C declared at application; the affordability confirmed by the bureau verification tool; the outputs of the credit check; and the review of her bank statements, it concluded Miss C could afford the loan.

Our investigator did not uphold Miss C's complaint. She said JN Bank's checks were proportionate and showed Miss C could afford the loan.

Miss C disagreed and asked for an ombudsman's review. She said based on her salary and existing debt she could not afford the loan. She had to borrow again to make the repayments and she had to use buy-now-pay-later plans for essential spending.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to provide any further comments or evidence for me to consider by 30 January 2025.

Extract from my provisional decision

I can see JN Bank asked for certain information before lending to Miss C. It asked for her income and expenditure. It asked for recent bank statements to verify her income and used statistics to verify her expenditure. It completed a credit check to understand her credit commitments and repayment history. Based on these checks combined it concluded the loan was affordable for Miss C.

I am satisfied these checks were proportionate but I am not persuaded JN Bank made a fair lending decision based on the information it gathered. I'll explain why.

Miss C's monthly income was £1,537 as confirmed by her bank statements. The credit check showed she already needed to spend £442 each month on her existing credit products. By taking on this loan that would increase to £627 which was over 40% of her income. At this level I think JN Bank ought to have been concerned. And as the industry knows, such a high level of consumer credit commitments can be indicative of pending financial difficulties.

This was a loan with a five-year term. And there were already signs that Miss C was under some financial strain on her bank statements. JN Bank had sight of this information at the time it made its lending decision. Miss C was persistently overdrawn, she was not using that facility for short-term borrowing as it is intended. JN Bank did not know the purpose of this loan, so whilst it seems Miss C used it in part to reduce her overdraft it was not aware that

this was her intention when she applied. From what it did know, it would have seen that Miss C was typically overdrawn all month and so would likely be using that facility to repay this loan – so in effect borrowing to repay. This means she would not be sustainably repaying the loan. And JN Bank was obliged to check this, as well as the pounds and pence affordability.

It follows I think JN Bank was wrong to lend to Miss C.

I then set out what JN Bank would need to do to put things right if I went on to uphold Miss C's complaint.

Miss C did not respond to my provisional decision. JN Bank did. It disagreed with the conclusion and provided an additional piece of information for consideration. It said the purpose of this loan was confirmed in the application by Miss C to be debt consolidation, although it recognises this information wasn't in the business file it shared. As Miss C's total debt was £18,064 and the loan was £7,800, JN Bank argues it is reasonable to assume that this would have, in part, been used to clear her overdraft, as well as contributing toward existing credit agreements without increasing the monthly cost of managing her commitments.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

I have thought carefully about the additional information JN Bank provided. And in the circumstances of certain applications I accept it could have changed the outcome. It is reasonable for a lender to take into account the purpose of the loan, and in some cases it will be clear from the available evidence that a loan for debt consolidation will be financially helpful, not harmful, for an applicant. For example, when the loan allows an applicant to settle all their debts, or to settle more expensive debts.

Here, however I cannot see that JN Bank had the assurances it needed that Miss C would be able to sustainably repay this loan. I say this as it has not evidenced that it knew which debts she planned to repay, and as the loan was less than half the value of her existing debt it could not be all of them. This meant it did not know whether the persistent reliance on her overdraft facility would carry on. It argues it is reasonable to assume she would use the loan in part to repay her overdraft. But I cannot see that it had any information to allow it to make this assumption. So it did not know whether or not Miss C would in effect be borrowing, via her overdraft, to repay its loan.

JN Bank needed to make a borrower-focused decision and consider not just the likelihood of getting its money back, but also the impact on Miss C. This includes checking that she could make the repayments sustainably – so without borrowing to repay, or suffering some other adverse financial consequence.

It follows, based on what it knew, I do not think it was right for JN Bank to give this loan to Miss C.

Putting things right

Miss C had the benefit of the loan so it's fair that she should have to repay this money. But to pay interest and charges on a loan that should not have been given to her is unfair.

So JN Bank must:

- Remove all interest, fees and charges on the loan and treat all the payments Miss C made as payments towards the capital.
- If reworking Miss C's loan account results in her having effectively made payments above the original capital borrowed, then JN Bank should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Miss C's loan account results in there still being an outstanding capital balance JN Bank should work with Miss C to agree an affordable payment plan.
- Remove any adverse information recorded on Miss C's credit file in relation to the loan once any outstanding capital balance is repaid.

*HM Revenue & Customs requires JN Bank to deduct tax from this interest. JN Bank should give Miss C a certificate showing how much tax it's deducted if she asks for one. If it intends to apply the refund to reduce an outstanding capital balance it must do so after deducting the tax.

I have not found any evidence JN Bank acted unfairly towards Miss C in some other way. I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss C in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

I am upholding Miss C's complaint. JN Bank UK Ltd must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 28 February 2025.

Rebecca Connelley
Ombudsman