DRN-5340483

The complaint

Mrs J, through her representative, complains that National Westminster Bank Plc (NatWest) lent to her irresponsibly.

What happened

Mrs J was approved for seven loans in total and here is a brief loan table.

Loan	Application Date	Closed date	Application Amount	Term months	Total to repay	payment
1	12 December 2012	6 August 2013	£15,000.00	60	£22,638	Not added in
2	15 July 2013	29 May 2014	£15,600.00	60	£22,846	Not added
3	6 May 2014	23 March 2016	£14,500.00	60	£18,992.40	£316.54
4	1 March 2016	24 July 2017	£10,300.00	40	£10,986.80	£274.67
5	*28 June 2017*	*25 July 2017*	*£24,000.00*	*84*	*£41,717.76*	*unknown*
6 (*109)	29 June 2017	26 July 2018	£30,000.00	84	£52,217.76	£621.64
7 (*857)	3 July 2018	24 July 2023	£44,050.00	96	£78,193.92	£814.52

We have checked with Mrs J's representative several times and Mrs J was clear that her complaint covered loans 6 and 7 only. The other loans are shown for context.

From records seen and having read explanations from Mrs J and NatWest, Loan 5 funds were credited to Mrs J and repaid almost the same day and so it seems the loan was effectively cancelled or withdrawn.

Loan 6: of the £30,000 applied for, £6,648.27 was used to settle loan 4 on 29 June 2017 and £23,351.73 was paid to one of Mrs J's saver accounts on 29 June 2017.

Loan 7: of the £44,050 applied for, £29,042.68 was used to settle Loan 6 on 4 July 2018 and the remaining £15,007.32 was paid into Mrs J's NatWest current account on 4 July 2018.

Loan 7 was paid off by transfer of £24,993.72 from Mrs J's NatWest current account on 29 June 2023. The bank statements and credit file provided from Mrs J and which I have reviewed show me that she took a loan (possibly two loans) from a different lender to make this repayment to NatWest in June 2023.

Mrs J complained and the final response letter from NatWest did not uphold her complaint.

After the complaint had been referred to the Financial Ombudsman Service, one of our investigators considered it. Our investigator's view was that that the size of the loans being applied for ought to have led to NatWest carrying out further checks including a review of Mrs J's bank statements to verify her income and expenditure prior to offering both loans. Our investigator carried out a detailed review and considered that Mrs J could not afford Loan 6 but she could afford Loan 7.

NatWest responded to accept the uphold for loan 6 and offered to repay interest on loan 6 plus 8% simple interest.

Mrs J's representative was not content with that part of our investigator's view being the non-uphold for Loan 7, and submitted detailed information about her rent, childcare costs and further facts and figures including an Income and Expenditure analysis. It said Mrs J could not afford Loan 7 either.

The unresolved complaint was passed to me to decide. On 14 March 2025 I issued a provisional decision giving details as to why I considered that both loans complained about – loans 6 and 7 – were ones that NatWest ought not to have approved for Mrs J. I gave time to both parties to respond. The reply date was 28 March 2025. NatWest asked for more time to reply. On 23 April 2025 NatWest responded in detail. And in addition to that 23 April 2025 response from NatWest, I have read all its emails received recently.

What follows is a duplicate of my provisional decision dated 14 March 2025. Then I follow that with NatWest's responses and my final determination.

What I provisionally decided on 14 March 2025 – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance, and good industry practice - on our website. And I've used this approach to help me decide Mrs J's complaint.

NatWest needed to make sure it didn't lend irresponsibly. In practice, what this means is that it needed to carry out proportionate checks to be able to understand whether Mrs J could afford to repay any credit it provided. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to do be done 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 firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly. I am aware that the alterations to the Financial Conduct Authority's Specialist sourcebook for consumer credit (CONC) was altered in November 2018 and these loans pre-date that.

Loan 6

I note that NatWest had accepted liability for Loan 6, but I also note that it had expressed concern at the costs detail our investigator had included in her review of Loan 6.

Further evidence has been sent to us to substantiate Mrs J's position in Spring 2017, and I have taken care to check all of Mrs J's accounts plus her savings accounts, assess her regular outgoings and check her income. So, despite NatWest's acceptance for Loan 6 I considered it fair to revisit it all. This leads to the same outcome as the one reached by the investigator.

Mrs J was repaying Loan 4 and turned to NatWest for additional funds. Loan 5 was not proceeded with. Loan 6 was used to refinance Loan 4. Having reviewed Mrs J's bank statements, £19,000 of Loan 6 funds was used to buy a car. I see that this was done on 4 July 2017 as soon as the funds arrived in her account.

By June 2017, Mrs J had been borrowing from NatWest for almost five years and she has described to us that the earlier loans were when she was a student.

NatWest has said that it would have accepted Mrs J's declared income of £3,200 after tax each month. It would have used expenditure data from credit reference agencies, to ensure the data entered at application was accurate and would have used Office of National Statistics (ONS) data.

> *'Our assessment took into account existing loan repayments of £385, credit card payments of £18 and living costs of £607. The living costs are taken from the office of national statistics which averages what a customer's essential spending is each month. This includes food, travel, and normal day to day expenditure.'*

NatWest cannot produce for us the application details or the credit bureau data obtained in June 2017 but has said that it was a *'clean accept'* – which perhaps indicates there wasn't anything to cause NatWest any concern. NatWest calculated that Mrs J had £2,190 of monthly disposable income and so the repayments for Loan 6 looked affordable.

Considering I've seen no evidence of any poor repayment history with NatWest its approach was reasonable. However, she'd refinanced all her previous loans into the next loan applied for and had been continually borrowing from it for almost five years. At this stage of the lending relationship, I would have expected NatWest to have questioned why Mrs J required further funds.

Plus, the Loan 6 funds were three times larger than Loan 4 (effectively the previous loan) and the repayment liability was increasing from just under £275 a month to just over £621 a month. I consider that a more detailed financial review ought to have been carried out for this 84 month loan than reliance on declared income and ONS data and credit reference information.

Mrs J had in Spring 2017 multiple bank accounts of which three were with NatWest. One was an e-ISA and one was an Instant Saver, and having got copies of those I can see that she regularly transferred money from those into the main current account (sole account) she used to supplement her income. The reason for that was that Mrs J had had a family event on 1 January 2017, had taken time off work and used her savings. By 30 June 2017 she had £275 in one savings account and £350 in the other. In 2017 Mrs J also had another high street bank account and a credit card with that same lender.

I've looked at Mrs J's income (discounting the transfers in from her savings accounts) for the period April, May, and June 2017. In April 2017 her income which included consultancy fees, Work and Child Tax credits and child benefit was £1,064. In May 2017 she received two lots of salary into two different accounts and I have accounted for both. So, her total income (including the benefits and tax credit) was £3,503. In June 2017, as I do not have a copy of one of the accounts for that month I was unable to check if she received two lots of consultancy fees in June 2017. But, using what I have, Mrs J's income was £1,758 (including tax credits and benefits). Her average across these three months was £2,288.

Mrs J's outgoings which included phone, TV subscription, insurance, council tax utilities and water bill, together with a £385 loan to an external lender and a £55 regular payment all came to £1,160. I've not included food and other costs. I've not included the cost of loan 4. I've obtained these figures from looking at all of her accounts and seeing these regular repayments.

I have email and rental agreement evidence that from mid-February 2017 Mrs J and her husband had signed up to split the rent of £1,600 on new accommodation.

Adding up £1,160, plus £800 rent and the new NatWest loan plus a reasonable allowance for other costs (food and the like) would not have left her enough to sustainably repay the loan over 84 months. Her savings account had relatively little in them by this time and not enough to supplement her income for many months.

For Loan 6 I consider that NatWest ought to have carried out a more detailed review of Mrs J's income and outgoings before approving it. Had it done that I consider that it would not have lent to Mrs J in June 2017. I plan to uphold the complaint about Loan 6.

Loan 7

Within a year, Mrs J approached NatWest again – this time to refinance Loan 6 and gain a further £15,000 cash. An overview of the loan history shows me that from June 2017 to early July 2018 the proposed new loan 7 effectively increased her loan repayments from just under £275 (loan 4) to just under £815 for the new loan 7. Her debt liability was increasing and the term length for loan 7 was planned to be for eight years. This was a large increase after many years of being indebted to NatWest. It's clear to me that NatWest should have carried out a full financial review of her circumstances to establish why she needed further funds in July 2018.

Mrs J had all the same bank accounts as before (save for the e-ISA which closed May 2018) plus she and her husband had a new joint account with a different high street bank. Mrs J has told us that she had secured a new job at the start of 2018 and the rental agreement which had commenced in February 2017 appeared to be continuing. The rent was £1,600 a month and I have email evidence to show that they were to split the costs.

A full review of her financial position would have shown that in order to work Mrs J had to pay significant nursery fees and was this was due to increase and/or her salary was due to decrease as a second family event was due.

I'm not expected to carry out a financial forensic analysis of Mrs J's finances, but I do consider that a more detailed look than the one carried out by NatWest in June 2018/early July 2018 ought to have taken place. Using the copy bank statements and information (including emails and invoices from nursery establishments and copy of the rental agreement) then I am satisfied that these were the costs Mrs J was facing at that time:

- Mrs J had declared a monthly income of £5,463 after tax. As well as being a very large increase in one year, Mrs J has confirmed to us that she was earning £2,860 from one source. '*My income was only the £2,860 received from* [company] *on the 15th of each month. All other add ins was from moving money around from other accounts or borrowing etc.'*
- Mrs J's actual income: I have seen the credits from one source for April 2018 £2,864, May 2018 £2,867, and June 2018 £2,978. Mrs J also received £83 child benefit each month. This added together and averaged across three months leading up to early July 2018, which I consider is a fair and reasonable period to review, comes to: £2,986. So Mrs J's recent explanations are broadly correct.
- The nursery costs were £1,020 each month, due to be reduced to £896 from June 2018 because of affordability. The direct debit for the payments was altered to be taken from the joint account she held with her husband so I have used 50% of that figure on the basis that would have been the cost from mid-June 2018.
- Mrs J was party to the rental agreement and so I've taken her liability as half the full cost - £800.
- Housing and living costs coming from Mrs J's sole accounts included council tax for the rental property of £168, gas/electricity of £110, TV subscription service £54, phone £90, car subscription which may have been for servicing costs £35, water £29. These add up to £486.
- She was also borrowing from her family and there's evidence of her repaying them by taking loans. Some of the funds from loan 7 were paid to a family member within days of obtaining it. NatWest would have discovered all these points with a full review of her financial circumstances.

One savings account had £700 in it on 3 July 2018 which would not be enough to cover the loan repayments even for a month.

The high street bank joint account had £1 in it on 13 June 2018.

One of Mrs J's sole accounts shows that she received a credit from a new loan for £682 in April 2018 which would have had to be paid for. I don't know what that was.

Other credit costs included credit card balances which Mrs J's representative has said was £4,265 (her total card limits were £4,750). I have used that figure. Using a minimum repayment of 5% then that likely would have meant Mrs J was having to pay around £214 a month.

Mrs J was liable for half the rent of £800, half the nursery fees £448, £214 on her credit cards, two other loans which were costing £220 and £32 a month. These added up to £1,714. Add on the £486 housing/living costs that comes to £2,200.

£2,200 plus the new loan repayment of £814 demonstrates that Mrs J was not able, sustainably, to repay loan 7 over eight years. As these figures do not factor in food and other costs usually associated with a family.

I plan to uphold the complaint about Loan 7.

This is the end of the duplicated provisional decision.

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.

After my provisional decision was issued, Mrs J's representative acknowledged it and made no observations.

NatWest requested time to review it. I note that no issue has been raised about the outcome for loan 6. So, I consider that neither party has a concern surrounding the uphold for loan 6 and so I say no more about it. NatWest had accepted liability for loan 6 before I issued my provisional decision and so it seems that has not changed.

NatWest replied with a number of points about loan 7 which I have summarised in the next paragraphs. Some points I've condensed.

- NatWest expressed concern that the declared income for the loan 7 application was £5,463 each month and the income Mrs J appeared to have received was more like £2,986 each month. Its own use of CATO (the credit turnover going through her account) had confirmed to it that her income was around £5,347 each month. So, NatWest disputes any additional checks would have been prompted as being required.
- NatWest expressed some concern as to the veracity of the information contained in Mrs J's application for loan 7.
- NatWest raised issues with payment of nursery fees.
- NatWest has said that using a credit card minimum repayment figure of 5% of the outstanding balance in my provisional decision was too high and it ought to have been 3%.
- NatWest has said that in its assessment it found loan payments of £468 each month whereas my provisional decision had referred to a lower figure of £252.

- NatWest used CATO for Mrs J's income and ONS data for her expenditure. The expenditure amounted to £1,166. NatWest maintains that there was nothing on the statements or from the automated checks that meant it should have taken into account anything more than this.
- NatWest pointed out that Mrs J was able to repay the loan - she made the payments each month with no issues, the current account also showed no signs of financial difficulties, and the loan was actually repaid early after five years, rather than the contractual term of seven years. My comments here are - it was a 96 month loan which translates to being 8 years not 7 years. And post loan repayments are not relevant to an irresponsible lending complaint surrounding the approval of loan 7.
- NatWest has said that there appeared to have been significant discrepancies with the information divulged to it and to the Financial Ombudsman Service. The information provided to NatWest and during its automated assessment, did not flag any issues or discrepancies between information provided and the information held on record, to force the need to manually intervene or undertake a manual assessment.

Having reviewed the complaint and my provisional decision findings all again, my answers to NatWest's points set out above are set out in the following paragraphs and are to be read with my provisional decision findings duplicated earlier in this decision.

And as a precursor I do point to the repeated use by NatWest in its recent emails of reference to it having obtained information from its credit search. But NatWest has told us that it could not send to us the credit search information it obtained for the applications as they were all automated, carried out behind the scenes and it could not send us the records. But now NatWest has been making multiple references to that/those credit search/searches. And so, if it could have sent to us the credit searches then I think that it ought to have done that before.

As I said in my provisional decision, an overview of the loan history showed me that from June 2017 to early July 2018 the proposed new loan 7 effectively increased her loan repayments from just under £275 each month (loan 4) to just under £815 each month for the new loan 7.

Her debt liability to NatWest had been increasing and the term length for Loan 7 was planned to be for eight years – not seven years as NatWest has said in its recent email to us. This was a large increase after many years of being indebted to NatWest and with eight further years of indebtedness going forward for Mrs J. It's clear to me that NatWest should have carried out a full financial review of her circumstances to establish why she needed further funds in July 2018.

And the net cost saving to Mrs J by taking loan 7 and repaying loan 6 and other debts (if she did do that) would not be enough to have justified the taking of that loan.

As for Mrs J's income, NatWest has shown us from its own records that the declared income for loan 6 had been £3,200 and the declared income for loan 7 was much larger (£5,347). I consider that significant increase in the declared income figures in itself ought to have been an indicator that a further check was required. Such a large salary increase in 12 months ought to have been checked.

Plus, as I've said, a full financial review would have led to NatWest verifying her income through a more specific route than use of CATO.

I refer NatWest to those parts of my provisional decision where I've given some details about the payment of the nursery fees. I don't repeat them here.

My understanding is that Mrs J had no mortgage in July 2018 and Mrs J was a party to the agreement for the rental. Therefore, it's a commitment I considered would be reasonable to include. And clearly it's a commitment to which she was liable and would have had to pay in the future.

The difference between 3% and 5% on Mrs J's credit card outstanding balance of £4,265 is £86. In the circumstances of this complaint, I doubt that would make a difference to the affordability assessment.

In relation to the loan repayments figure NatWest has questioned I used in the provisional decision, then my view is this: it is not a persuasive argument that use of a higher loan figure each month – NatWest says £468 – rather than my use of a lower monthly loan figure (£252) will make a fundamental difference when assessing Mrs J's affordability for loan 7. If anything use of NatWest's figure makes Loan 7 even less affordable. My view has not altered.

I have carefully considered NatWest's comments about and the value in the discrepancy between what Mrs J declared and her actual incomings at this time, but this does not change my conclusion.

NatWest argues that it relied on what Mrs J declared and so we must take into account that she made an inaccurate declaration. However, NatWest had an obligation to carry out proportionate checks before lending and had it done so it would have been able to complete its assessment using Mrs J's actual income.

NatWest doesn't think Mrs J would've been forthcoming with the information she has now provided this service, had it manually assessed her application. NatWest relied solely on predictive models of Mrs J's income and expenditure, which assumed credits to her current accounts were income and that her outgoings matched the national averages.

I can't say what Mrs J would have and would not have disclosed about her expenditure at the time, had NatWest made proportionate checks.

This being so, had it attempted to validate the income Mrs J declared, I think it more likely than not that it ought to have found it had been overstated.

NatWest also ought to have considered Mrs J's pattern of repeat borrowing, which may have been indicative of underlying financial difficulties and so required a more rigorous creditworthiness assessment.

But on the sole basis that NatWest failed to engage in a rigorous creditworthiness assessment, I don't think it is fair and reasonable to say that Mrs J also wouldn't have engaged.

Having reviewed all the issues and reconsidered the complaint, including the more recent submissions by NatWest, for the reasons given in my provisional decision and above, I uphold the complaint about loans 6 and 7.

Putting things right – what NatWest needs to do

Loans 6 and 7 have been paid off by Mrs J and from what I have seen from a copy of Mrs J's personal credit file no adverse entries for these loans appear. But I plan to include a direction in relation to those just in case there is some adverse data.

Because NatWest should not have given Mrs J the last two loans she took, it's not right that Mrs J should have to pay interest or charges on these or have them affect her credit file in a negative way. Then I think it should do as follows:

- Remove all interest, fees and charges applied to loans 6 and 7.
- Treat any payments made by Mrs J to both loans as payments towards the capital amounts for each loan,
- If Mrs J has paid more than the capital sums owed, refund any overpayments to her with 8%* simple interest from the date they were paid to the date of settlement.

- Remove any adverse information about the loans, if applicable, from Mrs J's credit file.

*HM Revenue & Customs usually requires NatWest to deduct tax from this interest. It should give Mrs J a certificate showing how much tax it has deducted if she asks for one.

I've considered whether the relationship between Mrs J and NatWest might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Mrs S results in fair compensation for her 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

My final decision is that I uphold Mrs J's complaint for the two loans about which she has complained. I direct that National Westminster Bank Plc does as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J to accept or reject my decision before 3 June 2025.

Rachael Williams
Ombudsman