DRN-5864005

The complaint

Mrs A complains that The Royal Bank of Scotland Plc (RBS) was irresponsible in its lending to her.

What happened

Mrs A was provided with two loans by RBS, the details are set out below.

Loan	Date	Amount	Term	Monthly repayments
1	February 2024	£25,000	60 months	£637.89
2	March 2024	£25,000	60 months	£626.83

Mrs A said that adequate checks weren't carried out before the loans were provided. She said she applied for the loans on her phone, and they were approved within minutes without further documents being requested. Mrs A said that her credit score was poor in February 2024 and that this large amount of debt has caused her financial difficulties and anxiety. Mrs A explained she is self-employed and is struggling to meet her tax payments and other commitments and while she hasn't missed payments, she has needed to rely on her credit cards to meet her essential costs putting her further in debt.

RBS issued a final response to Mrs A's complaint dated 28 January 2025. It said that Mrs A's loan applications were accepted without any internal policy warnings being triggered which meant that no additional manual checks needed to be conducted. It said affordability and creditworthiness checks were undertaken and Mrs A's declared income was validated using average credit turnover through her bank account. It asked Mrs A about her expenditure and carried out a credit check. It didn't find that the loans had been provided irresponsibly.

Mrs A referred her complaint to this service.

Our investigator didn't uphold this complaint. While he thought that RBS should have carried out further checks before the loans were provided, he found that had these happened the loans would have appeared affordable.

Mrs A didn't accept our investigator's view. She thought it contradictory that our investigator said that RBS didn't do sufficient checks but then her complaint wasn't upheld. She said her earnings were under £50,000 but RBS lent her this amount, which when added to her credit cards gave credit totalling £80,000. She asked if her tax payments had been included in the income and expenditure assessment and thought that if all of her outgoings were checked a proper decision could have been made, but this didn't happen.

Our investigator responded to Mrs A's comments. He explained that while he agreed further checks were needed, he then needed to understand what the decision would have been had these happened. In this case, he thought that further checks would have shown that both loans were likely affordable. Our investigator said that he included the tax payments that were identifiable in the bank statements but said if these weren't shown that it wouldn't be reasonable to expect further checks to have identified these. He said that Mrs A had declared her earnings in her applications which gave an annual income of around £66,000, and his checks identified income higher than this. Given this our investigator confirmed that his view hadn't changed.

As a resolution wasn't agreed, this complaint was passed to me, an ombudsman, to issue a decision.

My provisional conclusions

I issued a provisional decision on this complaint, the details of which are set out below.

Mrs A was provided with two large loans in close succession. RBS has explained that both loans were a 'clean accept' meaning no manual checks were required. It has explained that it used current account data to validate Mrs A's declared income and that a full credit score was undertaken. However, as the details of the credit check results haven't been provided and noting the size of the loans and the required repayments, I do not find I have seen enough to be able to say the checks were proportionate. However, for me to uphold this complaint, I would need to then be able to say that had proportionate checks taken place, it would have been identified that the loans shouldn't have been provided.

In this case, I think that RBS needed to get a thorough understanding of Mrs A's financial circumstances before lending and so I have looked through her account statements as well as the credit file she has supplied to understand what these checks would have identified.

Loan 1: February 2024

Mrs A's credit report shows that she had existing credit commitments at the time of the loan, including other loans and credit cards. Mrs A also had a history of taking out loans and while these were being settled without issue, I think her use of debt does need to be considered. Mrs A's credit report didn't suggest she was struggling to manage her credit commitments with her accounts being well maintained and up to date. Therefore, while I think her overall use of credit needed to be taken into account, I do not find there was specific information in her credit check that meant further lending shouldn't have been provided.

Given Mrs A's use of credit and existing commitments, it was particularly important to fully understand her financial situation to assess whether the loan would be affordable for her. I note Mrs A had said the loan was intended for debt refinancing and think it reasonable that this will have been included in the assessment.

Mrs A declared her monthly income as £5,500 and this was validated through her account turnover. I have looked at Mrs A's account data for the three months leading up to the loan and this shows her average income to be higher than the declared amount. Mrs A provides childcare services and receives income from different sources and so this can vary but I think using an average figure is reasonable. Mrs A has explained that out of the income she receives she pays an assistant, and I think it reasonable these payments are deducted. It is also likely that there were other business expenses that might need to be deducted but I haven't seen details of these.

After deducting the assistant's payments, an income figure of around £5,500 isn't unreasonable, however this appears to be a gross rather than net income figure. Mrs A's account shows her making payments for tax, but these aren't regular in the months leading *up to the loan. But considering the tax that would be due on a monthly income of around £5,500, the regular tax payments Mrs A made in previous months (up to September 2023) and the payments made since, I think that had further questions been asked a deduction for tax would have been included and I think an amount of around £800 a month is reasonable. Mrs A was also repaying a bounce back loan from her business income. Taking this all into account would give Mrs A a net monthly income of around £4,600.*

Mrs A had existing revolving credit and loan accounts. Having looked through the credit file provided, I think the amounts RBS noted of around £1,330 for her monthly revolving credit repayments and around £1,000 for her loans were reasonable. Additional to this, Mrs A was paying rent and other costs. The amounts recorded for rent in her account statements varied and I note Mrs A said she paid half the cost. So, given the amount included in RBS's assessment of £855 was higher than the amount Mrs A declared (which correlates to 50% of the total rent cost) I think it reasonable this figure was used. Additional to this Mrs A was paying for costs such as insurances, communications contracts and other regular costs totalling around £350 a month. The total of these costs (before general living costs such as food and fuel) was around £3,535.

Given Mrs A said the new loan was intended to refinance her debts, we wouldn't expect her total credit commitments to increase. Therefore, I think, on balance, based on the above costs it wasn't unreasonable that RBS considered that the loan would be affordable for Mrs A. Therefore, I do not find I can uphold this complaint in regard to loan 1.

Loan 2: March 2024

Mrs A was provided with a second £25,000 loan by RBS a month after the first. This loan was also for the purpose of refinancing debt. I think that Mrs A applying for a second large loan so soon after the first should have raised concerns. As the reason was again for debt refinancing and noting Mrs A's credit history did show her repaying loans and then taking out new ones, I think this second loan should have raised concerns that while Mrs A might be repaying debts with the new loan, that she was in a cycle where she had become reliant on borrowing and was taking out new loans to repay existing debts.

Looking through Mrs A's credit file, while she did appear to use money from loan 1 to reduce her credit card debt it appears that most of the money was additional borrowing. Loan 2 was used to repay a previous RBS loan taken out in June 2022 but also provided over £12,000 of additional debt. I think this should have raised concerns about the amount of debt Mrs A was accumulating.

Considering the affordability of the loan, as this was taken out only a month after loan 1, I think the net income figure of £4,600, housing costs of £855 and other costs of £350 are reasonable. RBS recorded Mrs A's revolving credit repayments as around £1,040 and as these had reduced from the previous loan, I find this reasonable. However, RBS included an amount of £579 for Mrs A's loan repayments and given the loan repayments due on loan 1 (which was still outstanding) were higher than this figure, I do not find this reasonable. Based on Mrs A's credit report she was required to make monthly loan repayments of around £1,200 (after the June 2022 loan was repaid but including the February 2024 loan repayments). Additional to this the repayments due on loan 2 were around £627 bringing her total credit commitments (loans and revolving credit) to around £2,870. This was around 62% of her income, which I think raises concerns about how sustainable this would be.

Deducting Mrs A's housing and other costs and her credit commitments from her net income would leave monthly income of around £530 for her general spending. This would need to include costs such as food and fuel as well as any additional costs for her business. While this could be sufficient, given Mrs A's pattern of borrowing, the amount she was required to *repay for her credit commitments compared to her income and considering the overall size of the loan and its term (combined with loan 1), I do not think that this loan should have been considered as sustainably affordable for Mrs A. Therefore, I intend to uphold this complaint in regard to loan 2.*

I've also considered whether RBS acted unfairly or unreasonably in some other way given what Mrs A has complained about, including whether its relationship with Mrs A might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mrs A 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.

RBS didn't accept my provisional decision and provided the details of the affordability checks it carried out before the loans were provided.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

I note RBS's response to my provisional decision. I have considered these comments but my decision to uphold the second loan (March 2024) hasn't changed. I say this because, in this case, as I set out in my provisional decision, I think RBS needed to get a clear understanding of Mrs A's financial situation before the loans were given. Had this happened I think a net income figure of around £4,600 would have been identified. In regard to the second loan, I accepted the figures RBS used for Mrs A's housing, living and revolving debt costs but given the loan repayments figure was lower than the amount Mrs A was paying on her February 2024 RBS loan, I think this needed to be checked. Again, as I set out, had this happened, I think this would have shown that Mrs A was using a substantial amount of her income for debt repayments. So, while I have considered the points made, these do not change my position and for the reasons I set out in my provisional decision, I am upholding this complaint in regard to the March 2024 loan.

Putting things right

The Royal Bank of Scotland Plc should:

- Remove all interest, fees and charges from the balance on loan 2, and treat any repayments Mrs A has made towards loan 2 as though they had been repayments of the principal loan amount of £25,000.
    - If that means that Mrs A would have made overpayments, then it must refund these overpayments with 8% simple interest* calculated from the date the overpayments would have arisen, to the date the complaint is settled.
    - Alternatively, if there is still an outstanding balance following the account

restructure, then RBS should try to agree an affordable repayment plan with Mrs A.

- Remove any adverse information recorded on Mrs A's credit file in relation to loan 2, once it has been repaid.

*HM Revenue & Customs requires RBS to deduct tax from this interest. It should give Mrs A a certificate showing how much tax it's deducted, if she asks for one

My final decision

My final decision is that The Royal Bank of Scotland Plc should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 14 November 2025.

Jane Archer
Ombudsman