

The complaint

Mr N says National Westminster Bank Plc irresponsibly lent to him.

What happened

Mr N took out two loans from NatWest. The first, on 14 September 2020 was for £5,500 over 60 months with monthly repayments of £130.42. The second, on 11 March 2022, was for £5,600 over 60 months with monthly repayments of £156.26.

Mr N says at these times he was experiencing significant financial distress, marked by clear gambling transactions, low disposable income, and high living costs. Although he said the loans' purpose was home improvements, the money was used to cover debts, basic living expenses, and unsuccessful attempts at generating online advertising income. Despite his current account showing heavy gambling and financial instability, the bank approved the loans without conducting deeper affordability checks.

NatWest says it carried out adequate checks and Mr N met its lending criteria for both loans.

Our investigator first clarified that the lending decision(s) for Mr N's overdraft and the subsequent administration of that facility did not fall under the remit of this complaint.

He did not uphold Mr N's complaint. He said the lender's checks were proportionate and showed the loans would be affordable for Mr N.

Mr N disagreed with this assessment and asked for an ombudsman's review. He made a number of points, some of which the investigator addressed. In his final submission he said, in summary, his positive account balance is not evidence of an absence of financial distress – his monthly credit commitments increased from £94 to £594 between loan 1 and 2. His income may have increased over this time period but he still had to borrow from elsewhere to make his repayments. His income and expenditure ought to have been verified. Finally, he maintains an unfair relationship under section 140A of the Consumer Credit Act was established. The overall outcome of the lending created a significant imbalance, leaving him in a position of sustained indebtedness that he could only manage by further borrowing. So, in practice the relationship was not fair.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision.

Extract from my provisional decision

I have reviewed the checks NatWest carried out for both loans. It asked Mr N for his income and sense-checked it against his current account credit turnover as he held his primary account with NatWest. It carried out credit checks to understand his existing credit commitments, including his mortgage costs. It asked about the purpose of the loans which was home improvements. Based on the results of these checks combined NatWest concluded Mr N had the disposable income to take on both loans, and cover his other living costs.

Loan 1

Whilst I find these checks were initially proportionate, I think NatWest had other information available to it that it needed to take into account as part of its lending decision in order to meet the requirement for its checks to be borrower-focused. On 6 September 2020 Mr N had disputed £7,850 of gambling transactions on his account. In these circumstances, irrespective of the outcome of that dispute, I think NatWest ought to have identified that Mr N was likely vulnerable at that time - whether it concluded he had or hadn't authorised those payments/losses. This means it needed to take steps to ensure that he received an equally good outcome to other customers. I think in this instance that would have meant not extending credit to him until his position was clarified and/or had stabilised. It observed itself in its final response letter:

'Following a review of your account and lending history, we can confirm that over the course of a few days in early September 2020, transactions totalling over £10,000 were made through your NatWest account, which resulted in your account becoming overdrawn. We also note the presence of financial instability during this time, including low balances, large withdrawals, and frequent transfers between accounts.'

I cannot agree that lending in that context was responsible. In addition, on 11 September 2020 it had already approved a £2,500 overdraft facility for Mr N.

It follows I think NatWest was wrong to lend to Mr N at this specific time.

Loan 2

Mr N declared an income of £2,700. His current account showed an average monthly salary in the three months before application of £1,600 – Mr N accepts he overstated his income. His current account does show a much higher credit turnover with an additional £3,500 each month on average. From the evidence I have seen it is not clear what these credits are and whether they were a reliable source of income – they range from £1,430 to £5,050 a month. As the regulatory guidance states that it is not generally sufficient to rely on an applicant's declared income without independent verification (CONC 5.2A.16G (3)), and as the only certain income that could be verified using Mr N's bank account was his salary of £1,600, I think NatWest ought to have used that number.

Its checks showed his credit commitments were now £594 so giving this loan increased that to £750.26. This meant he would need to spend 47% of his verifiable income on repaying his unsecured debt – a level which I think ought to have concerned NatWest. The industry knows such a commitment can be indicative of pending financial difficulties.

It follows I think NatWest was wrong to give loan 2 to Mr N.

I then set out what NatWest would need to do to put things right.

Mr N accepted this provisional decision. NatWest did not. It said it was unfair – it resubmitted its affordability data again arguing this shows there were ample net free funds for each loan after Mr N's commitments were taken off. It added that it fully credit scored both applications.

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.

I've also had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as NatWest, need to abide by. NatWest will be aware of these, and our approach to this type of lending is set out on our website. I have followed it here.

I have thought carefully about NatWest's response to my provisional decision. But it did not address the concerns and reasons I raised that led me to conclude both lending decisions were irresponsible.

Instead, it re-iterated that its checks for both decisions showed Mr N would have ample disposable income. It did not address the point I raised about it using Mr N's inflated, declared income for loan 2. But that aside, it was obliged to consider more than the pounds and pence affordability of a lending product for its account holders. It needed to be sure Mr N could repay both loans sustainably – so without needing to borrow to repay, or suffering some other adverse financial consequence. And it also needed to take into account any indicators of vulnerability.

It has not evidenced it did this. So, for the reasons set out in the provisional decision, it remains that I am not satisfied NatWest had the assurances it needed that Mr N could repay the loans sustainably.

It follows I do not think either loan ought to have been given to Mr N.

Putting things right

I think it is reasonable for Mr N to repay the capital amounts that he borrowed, but he has paid extra for lending that should not have been provided to him and that is unfair.

NatWest should:

- Remove all interest, fees and charges from the loans and treat all the payments Mr N made as payments towards the capital.
- If reworking Mr N's loan accounts results in him having effectively made payments above the original capital borrowed, then NatWest 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 Mr N's loan accounts results in there being an outstanding capital balance the lender must try to agree an affordable repayment plan with Mr N.
- Remove any adverse information recorded on Mr N's credit file in relation to the loans once the capital balances have been repaid.

*HM Revenue & Customs requires NatWest to deduct tax from this interest. NatWest should give Mr N a certificate showing how much tax it's deducted, if he asks for one.

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 Mr N in the circumstances of his 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 Mr N's complaint. National Westminster Bank Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 25 March 2026.

Rebecca Connelley
Ombudsman