

complaint

Mr N complains about a loan given to him by Bank of Scotland plc, which he says was unaffordable. He also says Bank of Scotland passed the debt to several debt collectors whilst it was in dispute and did not respond to his complaint properly.

background

In July 2010 Mr N took out a £17,000 consolidation loan with Bank of Scotland, through an appointed representative.

In 2011 Mr N ran into difficulty paying the loan. He complained to Bank of Scotland that it was irresponsibly lent. And he stopped making payments. Over the next few months Bank of Scotland referred the account to several debt collection agents and Mr N wrote several letters disputing the debt.

Our adjudicator did not uphold Mr N's complaint about irresponsible lending. After assessing the financial information Mr N and Bank of Scotland had provided, and after also looking at Mr N's bank statements and overall financial position at the time, the adjudicator did not think Bank of Scotland had acted irresponsibly in granting the loan. He also felt Bank of Scotland had treated Mr N positively and sympathetically by accepting a temporary reduced payment arrangement.

The adjudicator did think Bank of Scotland had failed to respond to Mr N's dispute promptly, so he recommended it pay Mr N £150 for distress and inconvenience. Bank of Scotland agreed to this.

Mr N did not accept this. He says he is concerned that the income figure Bank of Scotland used to assess his application is different from his own assessment of his income and expenditure at the time. He also says he was already in financial difficulty and had adverse information on his credit file when the loan was granted. He says he was only able to afford to service the loan for the first few months by relying heavily on his credit cards.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances.

Having done so, I do not think Bank of Scotland should be required to do any more than it has already agreed to do to resolve this complaint.

Mr N says he applied for the loan speculatively – and never expected it to be granted. However, I think it is relevant that this loan was intended to be a consolidation loan, to pay off Mr N's existing unsecured borrowing (in the form of loans and credit cards). Those debts stood at around £17,000.

Mr N says he was already in difficulty making payments to some of his credit cards and that he had adverse information on his credit file. It seems Bank of Scotland did review his credit file and existing liabilities. This showed a couple of late payments to his credit cards in the previous 12 months – but nothing else particularly untoward and nothing on the scale Mr N describes.

This conclusion is also supported by the credit card statements Mr N has provided. These show only one or two late payments before the loan was granted (some of which would not have showed on his credit file by the time the loan application was assessed).

According to his own expenditure figures – which are broadly corroborated by the figures Bank of Scotland used when making its lending assessment – Mr N's unsecured debts were costing him around £524 per month. The monthly payments to the loan were £273. So consolidating his existing unsecured debts using the loan would reduce Mr N's monthly outgoings by around £250. This would seem to be beneficial to Mr N.

Most of Mr N's unsecured borrowing was also on credit cards. It is reasonable to assume that the interest rates on those cards were higher than the 8.9% APR on the loan. Overall, therefore, the loan did seem to provide a manageable solution to Mr N's unsecured debts, so long as he could afford to maintain the payments.

Mr N says he couldn't afford the loan – and he clearly struggled to keep up the monthly payments after the first few months. He says this was because his income was only around £1,110. This is, however, different to the monthly income figure Mr N apparently provided to Bank of Scotland when he applied for the loan - £1,833. That figure was printed on the back of the loan agreement Mr N signed (along with brief details of his employment, home ownership and marital status). So I think Bank of Scotland was reasonably entitled to rely on that information – in conjunction with its own credit checks.

Even if I disregard the higher income figure Mr N apparently provided to Bank of Scotland when he applied for the loan and use the average income figure the adjudicator calculated from Mr N's bank statements (£1,370) instead, the loan still doesn't appear to be unaffordable.

Of course Mr N's ability to maintain the loan payments did partly depend on him using the loan for its intended purpose; which was paying off his existing unsecured debt. Mr N has provided a rather sporadic selection of credit card statements. From these I can see that he did use at least some of the loan to reduce the balances on some of his cards. But it isn't clear where the remaining money went.

I don't think Bank of Scotland can be held responsible if Mr N chose not to use the loan to pay off his unsecured debts. And it seems Mr N also carried on using those same cards, after taking out the loan, which eventually increased the balances to an unmanageable level again.

Mr N has described being in a cycle of debt, due largely to a project he says has caused him increasing, unexpected, cost. However, based on the information Bank of Scotland had at the time, which included looking at Mr N's credit file and also taking into account the information he provided and the purpose the loan was intended for, I don't think Bank of Scotland acted unreasonably in granting this loan.

Bank of Scotland has already accepted that it didn't deal properly with Mr N's complaint letters. It has offered £150 for the distress and inconvenience this caused, which I think is appropriate redress in all the circumstances. I think Bank of Scotland has otherwise treated Mr N positively and sympathetically.

I understand that Mr N may still be in financial difficulties. If this is the case then Bank of Scotland has a responsibility to continue to treat him positively and sympathetically. That does not mean it must write off some or all of the debt, but it might mean assessing his financial situation to come to a mutually acceptable, affordable payment arrangement. Mr N may now wish to contact Bank of Scotland to discuss this.

my final decision

My final decision is that I uphold this complaint in part – but only in relation to the distress and inconvenience Bank of Scotland plc caused to Mr N by not adequately responding to his concerns when he first made his complaint.

I therefore direct Bank of Scotland plc to pay Mr N £150 for distress and inconvenience. I make no other order or award.

Dawn Griffiths
ombudsman