

complaint

Mr O complains that National Westminster Bank Plc ("NatWest") acted irresponsibly when it lent him money in 2013.

background

I issued my provisional decision to both parties on 24 October 2019. A copy of this is attached below and forms part of this final decision.

In my provisional decision I set out the background to this complaint and I explained why I thought it should be partially upheld. I said that I felt it was reasonable NatWest had given Mr O a credit card, second overdraft and first loan in the summer of 2013. But that I thought it ought to have carried out further checks before giving him a second loan. And that if had done, it would have realised this loan unaffordable for him.

I explained that I intended to ask NatWest to refund any interest and charges applied to this second loan, not to apply any further interest or charges to the outstanding balance, and to remove any adverse information about it from Mr O's credit file.

Mr O responded to say that he accepted my provisional decision. NatWest also responded to confirm that it didn't have any further information to provide in respect of this complaint.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As neither party has offered any new comments or evidence, it follows that I see no reason to depart from the conclusions I reached in provisional decision. I'm still of the opinion that this complaint should be partially upheld for the reasons I outlined in my provisional findings.

my final decision

My final decision is that I uphold this complaint in part.

To put things right National Westminster Bank PLC must:

- Refund all interest and charges applied to the second loan it gave Mr O. NatWest should use the refund to reduce the outstanding balance of the loan
- Not add any further charges or interest to the outstanding loan balance going forward
- Remove any adverse information in relation to the second loan from Mr O's credit file

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 13 December 2019.

Jenette Lynch
ombudsman

copy of provisional decision

complaint

Mr O complains that National Westminster Bank Plc ("NatWest") acted irresponsibly when it lent him money in 2013.

background

Mr O developed a gambling addiction in the summer of 2013 and began borrowing money to support this. At the time he already had a graduate bank account with NatWest with an agreed overdraft limit of £2,000.

NatWest then approved further lending applications made on the following dates;

- 22 July 2013 - credit card with a credit limit of £1,850
- 4 September 2013 - loan for £1,500, repayable over 12 months
- 6 September 2013 - overdraft of £600
- 12 September 2013 - loan for £1,800, repayable over 12 months

In March 2019 Mr O complained to NatWest. He said it acted irresponsibly when it approved these applications. And he asked for a refund of interest and charges and the removal of any adverse information from his credit file. He says he was on a 'zero hours' contract earning variable amounts each month. And he had various other debit and credit cards which ran up total debts of over £30,000.

NatWest didn't think it had done anything wrong. It said it had used credit scoring to assess Mr O's applications and he'd met its lending criteria.

Our investigator didn't think there was any evidence to suggest NatWest had done anything wrong here either. And she didn't think NatWest knew, or ought to have known, about Mr O's gambling addiction.

Mr O disagrees. He thinks that if NatWest had asked more questions about his income and expenditure it wouldn't have given him the two loans. And he feels it should have done this given the short time between his applications. So the case has been passed to me to review.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. And having done so I think this complaint should be partially upheld.

When lending or extending credit to a customer we expect a bank to make checks that are reasonable and proportionate to the lending. There aren't any 'set' checks NatWest had to carry out. But it should have made sufficient checks to be confident that Mr O could repay the borrowing in a sustainable manner.

NatWest has shown us that it carried out checks following each of his applications. This included looking at information held by credit reference agencies. It's explained that these checks were automated. And that credit card applications and loan applications are dealt with by separate parts of its business.

I can see that NatWest declined a number of other applications Mr O made for loans and overdraft extensions during this period. I agree this shows that it was taking steps to assess the affordability of its lending, and restricted the amount of money it was willing to offer him.

However, in these individual circumstances, I have some concerns about its decision to extend the second loan to Mr O. I'll explain why.

When NatWest looked at Mr O's credit card application it made some projections and calculated that his monthly expenditure was around £1,050. Mr O declared that he had an income of £1,500 a month. And after looking at the cost of his other borrowing NatWest felt he had £387 a month in 'net free funds' at this time. This was more than sufficient to meet the monthly repayments for his credit card. And I think its reasonable that based on this assessment and the other checks it carried out NatWest approved this application.

Mr O also declared that he had an income of £1,500 a month when he applied for the second overdraft and the first loan. Repayments on this loan were £140.65 a month, and again I'm satisfied that based on the information he'd given to NatWest, these appeared – at the time of the applications – to be affordable.

I understand Mr O was in fact on a 'zero hours' employment contract, which meant his monthly income was not fixed. I'm not sure if he'd specifically made NatWest aware of this or not. I've looked back at his bank statements over the year prior to these applications and can see he was paid between £985 and £2,100 each month.

I agree that £1,500 a month was an exaggeration of his average income. But I can see that when assessing his credit card application NatWest also looked at the average amount that was credited to his bank account each month, and recorded that this was £1,396. And based on this lower figure I still think that the credit card, second overdraft and first loan appeared to be affordable.

When he applied for the second loan, Mr O declared an income of £1,274 a month. And NatWest assessed his application using this figure. It didn't do a full monthly expenditure projection like it did when he made his credit card application. But instead looked at his living arrangements and housing costs, as well as the cost of his other borrowing.

I understand this was done in line with NatWest's usual process for assessing applications like this. I can see it performed the same checks for his first loan application. And I appreciate that on both occasions Mr O met its normal lending criteria.

My role isn't to consider whether NatWest's general approach to evaluating the affordability of applications for borrowing is reasonable. Rather I've looked at the specific applications made by Mr O, and taken into account the circumstances around them.

Having considered the information NatWest already knew about him at the time of the second loan application (even if some of this information was held by a separate part of its business), I'm not persuaded that the checks NatWest carried out here were proportionate in the circumstances. Given the reduction in his declared income, the number of applications he'd made to it for borrowing, and the amounts it had already lent him in a short space of time, I think it would have been reasonable for NatWest to have asked Mr O some further questions about his income and expenditure before giving him the second loan.

I can't see that Mr O's outgoings had reduced since he'd made his credit card application. And after an assumed monthly expenditure of £1,050, existing loan repayments of £140.65, credit card repayments at a minimum of £40, and two overdrafts - I don't think that he had sufficient net free funds to make the additional monthly repayments of £167.64 required for the second loan. So if NatWest had asked him for more information, I think it's likely it would have concluded that this loan wasn't affordable for him. And that it wouldn't have approved this application.

I understand Mr O feels strongly that NatWest shouldn't have given him the first loan either. And I've thought about the arguments he's made here. But I haven't come to this conclusion.

I don't agree that his existing overdraft and credit card meant NatWest shouldn't have approved the first loan. His graduate bank account had generally been managed satisfactorily. He'd stayed within his overdraft limit and money had been credited to the account regularly. And whilst I can see he reached his credit card limit quickly, some large payments were also made to the account. So I don't think it's unreasonable that NatWest felt Mr O could afford the repayments for this first loan based on the information it had at the time.

Mr O has also given us a copy of his credit report to demonstrate the extent of his other financial commitments. I can see that during August and September 2013 he took out credit cards with other lenders, in addition to some payday loans. But it generally takes a number of weeks for information about new borrowing to appear on a person's credit file. And NatWest has shown us it wasn't aware of this other borrowing when it carried out its checks on his applications here.

I don't think it would have known about other outstanding applications he'd made to lenders during the same period either. So I can't fairly say that NatWest made a mistake by not taking this into consideration. And I still think it was reasonable for it to conclude that the credit card, overdraft and first loan were affordable.

I'm sorry to hear Mr O has had struggles with gambling. I've thought about whether it was irresponsible for NatWest to extend the other lending to him on this basis, regardless of the affordability checks it carried out. But I don't think it was.

Looking at Mr O's statements I can't see any gambling transactions were carried out using his NatWest bank accounts until after he'd applied for the credit card, and shortly before he applied for the loans and second overdraft.

It does look like in the short time Mr O had the credit card before applying for the further lending it was mainly used for gambling purposes. But I can also see he'd made some significant payments to the card throughout July and August. So again I don't think this would necessarily have indicated that he was struggling.

NatWest says that it wouldn't refuse to lend to someone based on their choice to partake in gambling transactions. And I don't think that's unreasonable - many people choose to spend money in this way and they're entitled to do so. I also haven't seen any evidence that Mr O had made NatWest aware at this time that he was struggling to control his gambling, or that it had become a problem. I can see from NatWest's records that Mr O only let it know he was struggling financially on 22 November 2013.

It's clear that Mr O got into financial difficulties shortly after he took this borrowing from NatWest. But for the reasons I've outlined above I think that NatWest acted reasonably when it approved his applications for the credit card, second overdraft and first loan. So I don't think it would be fair for me to ask it to refund all of the interest and charges Mr O is asking for here.

However, I do think it ought to refund the interest and charges it applied to his second loan. This means that, while Mr O should still have to pay back what he's borrowed and spent - he can do so without being disadvantaged by having to pay back any more than this amount.

I also intend to tell NatWest not to apply any further charges or interest to the remaining balance. And to remove any adverse information it's reported about the second loan to the credit reference agencies.

my provisional decision

My provisional decision is that this complaint should be partially upheld for the reasons I've outlined above.

To put things right I intend to ask National Westminster Bank PLC to:

- Refund all interest and charges applied to the second loan. NatWest should use the refund to reduce the outstanding balance of the loan
- Not charge any interest on the outstanding loan balance going forward
- Remove any adverse information in relation to the second loan from Mr O's credit file

Jenette Lynch
ombudsman