

The complaint

Mr H complains that National Westminster Bank Plc (“NatWest”) was irresponsible to lend to him.

What happened

Mr H had one loan from NatWest in July 2022 as follows:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Monthly Repayment</u>	<u>Due</u>
1	7 July 2022	£10,000	48m	£268.89	28 Jun 2026

Mr and Mrs T, on behalf of their son, Mr H, complain that NatWest approved a loan application for their son without due diligence. They say Mr H had recently been hospitalised for a mental health condition and, shortly after his release, he’d applied for the loan on his phone. They add that he used the money, along with £4,000 of his savings, to purchase crypto-currency. Mr and Mrs T say that NatWest should not have allowed such a transaction and that the currency was later stolen from Mr H’s crypto wallet. Mr and Mrs T say the situation has exacerbated their son’s poor mental health and caused them both stress and anxiety. In addition, they say, NatWest said the account would be frozen on 12 October 2022, but that this did not happen until 28 November 2022. They would like NatWest to cancel the loan and reimburse the £10,000 along with the additional £4,000.

NatWest says it checked Mr H’s credit score and verified his declared income and outgoings before approving the loan automatically. It says the loan was fairly assessed, but as a result of the information about Mr H’s mental health, the repayments have been suspended, pending a discussion about support going forwards.

Our investigator did not recommend the complaint should be upheld. She found no evidence that NatWest was made aware of Mr H’s mental health issues prior to lending and was satisfied that the affordability checks it carried out were proportionate and indicated the repayments were sustainable. Our investigator reminded NatWest of its duty to treat Mr H fairly when setting up an affordable repayment plan.

Mr T responded to say, in summary, that he did not believe the investigator fully considered all the evidence originally presented. In particular Mr T said:

- Due diligence from NatWest would have identified:
 - Mr H’s income was from Personal Independent Payments (PIPs) (which could indicate a long-term mental health issue);

- His spending was erratic – potentially a warning that Mr H's capacity to make rational financial decisions was compromised;
- The lack of interaction required prior to lending was an irresponsible position to hold in relation to NatWest's duty of care to vulnerable customers;
- Lenders should display additional diligence when they identify that incoming benefit payments are PIPs, as the nature of such payments could indicate an issue with regard to rational financial decision making;
- He expects NatWest to continue to freeze interest charges on the account until the complaint has been fully considered by an ombudsman.

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 need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr H's case, I have considered the following questions:

- Did NatWest complete reasonable and proportionate checks when assessing Mr H's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did NatWest make a fair lending decision?
- Did NatWest act unfairly or unreasonably in some other way?

Loan affordability

When Mr H applied for the loan, NatWest checked his credit file and verified his income and expenditure. These checks showed:

- Mr H said he was living with his parents;
- A verified income of £1,100 per month;
- No adverse information on Mr H's credit file;
- Over £570 of disposable income each month.

I accept that all these checks were carried out automatically, but I'm satisfied the information showed that the application met NatWest's loan criteria and that there was nothing that should have indicated to NatWest that it needed to carry out further checks.

So, I consider NatWest carried out reasonable and proportionate checks and made a fair lending decision based on the available information.

Vulnerability

I have carefully considered whether NatWest should have done anything differently with regard to Mr H's specific vulnerabilities and its loan decision. However, I am not persuaded that it did anything wrong by approving the loan in the way that it did because:

- I've seen no evidence to suggest that NatWest had been informed, before he applied for the loan, that Mr H may have difficulty making rational financial decisions;
- Although Mr H's bank statements showed his income was derived from benefits, NatWest has confirmed it's able to accept benefit payments as a form of income and, indeed, the income verification process was to ensure the monthly income received matched the declaration from Mr H in value only;
- As such, the automated system would not have flagged that the income was primarily a PIP payment;
- I am satisfied that NatWest followed its own processes when deciding to approve the loan.

That said, I have also considered whether NatWest should have done anything differently given the information it already had about Mr H's circumstances – in particular I've considered what Mr T said about the nature of PIP payments and his son's erratic expenditure.

I accept that a person can be in receipt of PIP payments if they:

- *"have a long-term physical or mental health condition or disability";*
- *"have difficulty doing certain everyday tasks or getting around";*

So while it *could* indicate that financial management may be difficult, there are many different reasons that a person may be in receipt of PIP payments. I acknowledge, however, that Mr T says NatWest should have used that information to be more diligent about Mr H's loan application and, by implication, establish the reason he receives such a payment.

The relevant guidance from the Financial Conduct Authority says:

"A firm should assume a customer has mental capacity at the time the decision has to be made, unless the firm knows, or is told by a person it reasonably believes should know, or reasonably suspects, that the customer lacks capacity."

and

"A firm should not unfairly discriminate against a customer who it understands, or reasonably suspects, has a mental capacity limitation, in particular, by inappropriately denying the customer access to credit."

Given that it had not been flagged to NatWest that Mr H may have difficulty with financial management, it would have no reason to think that the PIP payment would be relevant to the lending decision. Even if it did, I'm not persuaded that a different lending decision would be the outcome given the affordability information and the FCA guidance.

In short, I don't find NatWest was lacking in its due diligence in this case, nor that its automated loan assessment was, by definition, irresponsible.

I do note that NatWest did initially charge further interest after it said it would freeze the account, but I've seen evidence that this was refunded, and that NatWest has agreed that the account will remain frozen pending the outcome of this case.

Finally, with regard to the question of whether NatWest should have allowed Mr H to use the loan money, plus more, to purchase crypto currency, this would need to be the subject of a separate complaint. As such, I won't consider this aspect here, but I understand Mr and Mrs T are considering whether to raise an additional complaint about NatWest's responsibilities.

In summary, I find NatWest made a fair lending decision and it did not act unfairly or unreasonably in any other way. However, I would remind it that, now it is aware of Mr H's vulnerability, it should consider the management of the loan in that context going forwards.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 24 August 2023.

Amanda Williams
Ombudsman