

The complaint

Ms H says Barclays Bank UK PLC irresponsibly lent to her.

What happened

Ms H took out a loan for £19,000 over 60 months on 28 November 2019. The monthly repayments were £361.38 and the total repayable was £21,682.80. The loan defaulted on 19 March 2023.

Ms H says she took out the loan to help launch a new business and to repay some credit card debts, but the Covid-19 pandemic forced her to stop trading. As she was newly self-employed she was only entitled to universal credit. She has had to downsize and use her pension pot to survive. This has affected her mental and physical health. She asks for the balance of the loan to be written-off, arguing that Barclays - as a member of the World Economic Forum - was aware of pending pandemic policies that would detrimentally impact small businesses.

Barclays say Ms H's application passed its affordability checks and Ms H did not contact it to say she was having difficulties paying.

Our investigator upheld Ms H's complaint in part. He found Barclays was wrong to lend to Ms H as better checks would have shown she could not afford the loan. He said it must refund all interest and charges, but he did not agree it should write-off the outstanding capital balance.

Barclays did not respond to this assessment so the complaint was passed to me to make a final decision.

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.

Barclays will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in detail in this decision. Information about our approach to these complaints is set out on our website, but broadly what we consider is whether a lender carried out proportionate checks; if so, did it make a fair lending decision; and if not, what would better checks most likely have shown.

Barclays has said it completed an affordability assessment that showed Ms H would have £66.62 monthly disposable income after taking on this loan. It says it calculated this by taking into account Ms H's income (£3,049) and her housing and living costs (£1,778.38) and her existing credit commitments (£842.62). It is unclear from Barclays' submission how, or if, it verified the income and expenditure figures it used. It also carried out a credit check that showed no adverse repayments information, and an overall unsecured debt level of £16,400.

I do not think these checks were proportionate given the term and value of the loan and the fact that they showed Ms H would be left with only £66.62 of disposable income each month - for 60 months. Also, the checks showed Ms H was already spending a not insignificant portion of her income on credit and this ought to have concerned Barclays.

So, in these circumstances, I find Barclays needed to complete a fuller financial review before approving the loan. Ms H had an existing relationship with Barclays as she held her current account at the bank. This information was easily accessible and clearly relevant to her loan application. I acknowledge that Barclays' lending decision was most likely automated, but this does not mean that obvious available information should be ignored. Barclays had an excellent source of data about Ms H's financial circumstances – its own internal records.

I have reviewed Ms H's bank statements from the months prior to her application. I find there is that evidence the loan was irresponsibly lent.

Ms H's salary seems to have last been paid on 8 August 2019, over three months before the loan application. This supports Ms H's testimony that she was newly self-employed with no income other than universal credit. Barclays had access to this data and so should have reacted to it. I accept Barclays told this service Ms H declared a higher monthly income of £3,000, but this does not change Barclays' obligation to carry out proportionate checks before lending.

There were also a number of returned direct debits indicating financial pressure – particularly the one for her mortgage in mid-November 2019. And Ms H's use of her emergency borrowing facility on the account was increasing in frequency, as was the value of her overdraft.

In the round I think there were clear indicators that Ms H did not have the level of disposable income Barclays had assumed, and that this loan was not affordable for her.

It follows I find Barclays was wrong to lend to Ms H.

Putting things right

Ms H has asked that the remaining balance of the loan be written-off but that it is not our usual approach in cases like this as where the borrower has had the benefit of the money. Here, Ms H argues that Barclays had access to knowledge the public did not about likely pandemic policies and how she might be impacted as a small business owner.

But Ms H applied for a personal loan, not a small business loan, and so there would be no reason for Barclays lending policy for her loan to take into account the simulation exercise Ms H has referenced.

I have found no reason for Barclays to waive the outstanding capital balance. I think it's fair that Ms H should have to repay the money she borrowed and had the use of. But it is not fair that Barclays can apply interest and charges on this loan that should not have been given.

So Barclays should:

- Refund all interest and charges. That is to add up the total amount of money Ms H has repaid for the loan and deduct the sum from the capital amount of the loan.
- As a capital balance will remain outstanding, then Barclays should try to arrange an affordable and suitable payment plan with Ms H.

- Once Ms H has cleared the capital balance, any adverse information in relation to this loan should be removed from her credit file.

If Barclays has sold Ms H's debt it should try to buy it back, if this is not possible it must work with the new owner to achieve the same outcome as the steps set out above.

My final decision

I am upholding Ms H's complaint in part. Barclays Bank UK PLC must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 6 February 2024.

Rebecca Connelley
Ombudsman