

The complaint

Miss B has complained that National Westminster Bank Plc (“NatWest”) acted irresponsibly when it gave her an overdraft in May 2018. She’s said that as a result of the lending decision she’s now in an unmanageable situation where she’s unable to clear the overdraft balance on her account and remove the facility.

Background

Miss B has had a bank account with NatWest since 2015. In 2018, after she had turned 18 and her account had been upgraded from a junior account to an adult account, she applied for a £350 overdraft facility online. This was added to her account and just under three weeks later Miss B requested the limit be increased to £350 to £550 which was also accepted by NatWest.

Miss B has said that at the time she applied she was only 18, very immature and not working and only in receipt of benefits. She has said that it was wrong for NatWest to add the facility onto her account as it was never affordable. She complains that since the inception of the overdraft she has never been able to get her account back into a credit balance and has previously requested the facility to be removed but was unable to do this because she owed money on it. She says that as soon as her benefits, including child benefit, are added to the account the funds are swallowed by the overdraft. She has said she is caught in a circle of debt and wants NatWest to refund the interest and charges added to it, use that refund to clear the balance and then remove facility entirely from her account so she can start afresh.

NatWest has said that at the time Miss B applied for the overdraft the opening limit was low and all its checks indicated that it was affordable for Miss B. So, it didn’t think it had done anything wrong when it offered the facility in early May 2018 or increased the limit just under three weeks later. When it investigated Miss B’s complaint it didn’t uphold it but did offer her a refund of all interest and charges between 31 March 2022 and 31 January 2023 as a gesture of goodwill.

Miss B refused to accept the gesture of goodwill from NatWest and brought her complaint to this service. I issued a provisional decision on Miss B’s complaint on 08 January 2024. In it I found that NatWest had failed in its obligations to monitor Miss B’s overdraft usage and offer support when it became apparent she was experiencing financial difficulties. So, I upheld the complaint and directed NatWest to refund all the interest and charges associated with the overdraft facility from 09 May 2019 to the date the refund is issued. This refund could then be used to clear the overdrawn balance on Miss B’s account which would enable NatWest to remove the facility entirely. I asked both parties to respond by 05 February 2024.

Both Miss B and NatWest responded on the day the provisional decision was issued to confirm they accepted by findings and the proposed resolution. Neither party had any further submissions or comments to make.

As no new points have been raised my findings remain the same as they were in the provisional decision. For the sake of transparency and completeness I will repeat them here.

My findings

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

I agree with the findings reached by our investigator about the checks NatWest ran in May 2018 when Miss B applied for overdraft as I don't think there was anything obvious that indicated the overdraft facility was inherently unaffordable or that Miss B would struggle to manage it. So, I don't think NatWest was wrong to approve her application or add the facility onto her account.

However, the rules set out by the Financial Conduct Authority ("FCA") in The Consumer Credit sourcebook ("CONC") state that there are further obligations on businesses when it comes to lending that go beyond proportionate checks at application stage. CONC 5D speaks about overdraft usage where it should be clear that consumers are struggling to manage their facilities properly and at risk of financial difficulties and CONC 6.7.2 talks about the obligations on a firm to adequately monitor how consumers manage credit and that businesses need to actively monitor accounts for signs of financial difficulty.

Miss B's overdraft was added in May 2018. Having looked at over five years' worth of statements it's clear the account has never gone back into credit the entire time the facility has been in place. At the beginning of each month, Miss B receives monthly payments into her account and these clear the overdraft for just a matter of hours before the account goes back into a deficit. So, I think it's clear that despite the fact the checks run by NatWest were proportionate, the overdraft facility wasn't genuinely manageable for Miss B and has caused her financial problems since its inception.

NatWest should've monitored Miss B's account after the first year she had the facility on her account and reviewed how she was using her overdraft. This would've allowed it to meet its various obligations under CONC and to consider whether or not Miss B was managing the credit facility appropriately. If it had done that I think it would've seen that Miss B wasn't able to afford the facility in a sustainable way and it would've spoken to her about how to remove it. This help from the bank could've prevented Miss B from becoming increasingly dependent on the overdraft facility and from getting caught in a spiral of debt.

For those reasons I uphold Miss B's complaint.

Putting things right

- NatWest should refund all the interest and charges associated with the overdraft from 09 May 2019 (one year after the facility was added to the account) adding 8% simple interest per year* from that date to the date of settlement.
- Miss B has confirmed this refund can then be used to clear the current balance on her account after which she would like NatWest to remove the overdraft facility. If there is any balance left once Miss B's overdraft has been repaid in full this should be paid directly to Miss B.

*If NatWest considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss B how much it's taken off. It should also give Miss B a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons set out above I uphold Miss B's complaint against National Westminster Bank Plc.

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

Karen Hanlon
Ombudsman