

Complaint

Mr H has complained about an overdraft National Westminster Bank Plc (“NatWest”) provided to him. He says the overdraft was irresponsibly provided as he said that he couldn’t afford it on more than one occasion.

Background

NatWest initially provided Mr H with a student overdraft for £500 in June 2017 the limit was increased to £2,000.00, after an online application, in August 2017. The overdraft was to be interest and fee free for at least the duration of Mr H’s studies provided he stayed within his limit.

In March 2023, Mr H complained that NatWest irresponsibly provided him with his overdraft. NatWest didn’t accept that this was the case. Nonetheless it accepted that there were service issues and that it didn’t log a complaint on Mr H’s behalf sooner in circumstances where it should have done and paid him £100 for this.

One of our investigators reviewed what Mr H and NatWest had told us. And she thought that NatWest hadn’t done anything wrong or treated Mr H unfairly in relation to providing him with his overdraft or increasing his credit limit. So she didn’t recommend that Mr H’s complaint be upheld.

Mr H disagreed with our investigator’s assessment and asked for an ombudsman to look at his complaint.

My findings

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

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr H’s complaint.

Having carefully considered everything, I’ve decided not to uphold Mr H’s complaint. I’ll explain why in a bit more detail.

NatWest needed to make sure that it didn’t lend irresponsibly. In practice, what this means is NatWest needed to carry out proportionate checks to be able to understand whether Mr H could afford to repay before providing him with an overdraft and his limit increases.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of

it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

NatWest says it agreed to Mr H's application after it carried out a credit search and obtained some information about his income and expenditure. On the other hand, Mr H says NatWest didn't do anything at all before agreeing to lend to him.

I've carefully thought about what Mr H and NatWest have said.

I think that it is worth it for me to start by saying that Mr H wouldn't have had to pay any interest or charges for some time provided that he kept within his overdraft limit. I think this is especially important context to bear in mind given what Mr H has said here.

When Mr H initially applied for his overdraft, I can see that Mr H was asked for some information on his income and expenditure. NatWest has also provided a record of what its credit checks showed too. And I'm satisfied that the credit search NatWest carried out showed Mr H hadn't had previous difficulties with credit. I've not seen anything to suggest that the situation changed by the time that Mr H was provided with his limit increase shortly afterwards either.

I know that Mr H says he wasn't told that he would be credit searched at the time of the application. But the information from the time does suggest that information explaining that credit searches would be carried out is likely to have been provided to Mr H. I don't know if Mr H considered this information at the time.

But even if I accept that the process regarding applications for credit and credit searches hadn't adequately been brought to Mr H's attention, for the sake of completeness I wish to make it clear that I'm not making such a finding here in light of the information provided from the time, I nonetheless have to consider what Mr H is likely to have done had this process been highlighted and brought to his attention.

Mr H clearly wanted the overdraft – at least at the time that he applied for it – and a credit search is usually the minimum a lender will request as part of its decision on whether to lend. So carrying out a credit search is in effect standard practice for most lenders when considering an application for credit.

And in these circumstances it's difficult for me to accept that Mr H would have decided against an overdraft application if the fact that a credit search would be carried out as part of the process had been better explained to him. Particularly as he hasn't shown that he suffered from a loss due to a credit search being carried out on him.

I'm also mindful about Mr H's circumstances at the time of his overdraft application and limit increase and the fact that he was entering (and in at the time of the increase) full time education. In these circumstances, where Mr H was unlikely to earn for some time, it's difficult for me to agree that agreeing this overdraft was wholly unreasonable given it would provide him with some breathing space and was a far better alternative to any other alternative sources of credit Mr H would more likely than not have turned to.

I don't agree that Mr H was provided with his overdraft at a time where he had no income either given Mr H's statements show that he was in receipt of student loans. Mr H now says that he applied for his overdraft because he was desperate to pay bills. Again I don't know if this was the case as this isn't supported by Mr H's statements from the time.

But nonetheless I can't see an alternative where Mr H would have been able to borrow from a lender – in order to pay bills – without having to pay interest at the time. And given the

circumstances, where this was a student account where Mr H would continue to receive the funds interest free for an extended period, it's difficult for me to accept that providing Mr H with the overdraft or increase the limit.

So overall bearing in mind the circumstances and the type of facility it agreed to, I don't think that NatWest treated Mr H unfairly or unreasonably when providing him with an interest free overdraft.

Mr H has said that he wasn't permitted to reduce his overdraft limit when he requested this. I don't know what Mr H asked for or what he was told. But it is pretty routine for a limit decrease to be actioned for customer, as long as such a decrease to a customer's limit wouldn't leave them over their new limit.

Indeed, on Mr H's student account carrying out such a course of action would have seen him pay overlimit fees and interest in circumstances where if he wasn't over his previous limit he wouldn't have to pay anything until after his graduation at the very least. Mr H says he was going to pay some funds to drop the balance.

But I don't think that NatWest refusing to action any such request, until the balance had already been reduced, was unfair given the consequences had Mr H not gone on to immediately credit the account in the way that he said he would. So I wouldn't consider NatWest refusing a limit decrease in the circumstances Mr H has described to be unfair.

Finally, I know that Mr H is unhappy that his balance has been passed to a debt collection agency. I fully appreciate why he's unhappy with this course of action, adverse information being recorded on his credit file and worried about the impact this will have.

But it's clear that Mr H hasn't been able to start bringing down his balance since his student and graduate terms ended. Furthermore, the statements I've been provided with don't indicate that NatWest started charging interest on the full balance either. In any event, I don't think it would have been fair, reasonable or proportionate for NatWest to continue ignoring Mr H's obvious and apparent difficulty and inability to bring his overdraft balance down, or the fact that the overdraft had become demonstrably unsustainable for him, indefinitely.

So I would have expected NatWest to have taken action in the way that it did when it did. After all while withdrawing a facility, passing a debt on and/or recording adverse information, might be viewed negatively by other lenders, it does offer the borrower certain protections in relation to the overdraft debt. And I'm satisfied it was fair and reasonable for NatWest to begin the process of taking action in relation to Mr H's overdraft when it did.

As this is the case and Mr H didn't or wasn't able to take steps to repay what was owed, or reach a suitable arrangement to repay what was owed within a reasonable period of time, I'm satisfied that NatWest was entitled to withdraw Mr H's overdraft, record the adverse information it did and also pass his balance on to the debt collection agency in the way that it did. If Mr H is unhappy at the actions of the debt collection agency, this is a matter that he will need to take up with that party in the first instance.

Overall and having considered everything, I'm not upholding Mr H's complaint. I appreciate this will be very disappointing for Mr H – particularly as he's been paid £100 in relation to service issues and the handling of his complaint. But I'm afraid that this doesn't mean that NatWest has accepted it irresponsibly provided him with an overdraft in the way that he considers. And whilst I accept that he may not agree with me, I hope Mr H will understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 January 2024.

Jeshen Narayanan
Ombudsman