

Complaint

Miss H complains that National Westminster Bank Plc (“NatWest”) unfairly lent a personal loan to her. She says the loan was unaffordable.

Background

NatWest provided Miss H with a loan for £7,500.00 in July 2022. This loan had an APR of 15.72% and was due to be repaid in 30 monthly instalments of £303.31.

One of our investigators reviewed what Miss H and NatWest had told us. He didn’t think that NatWest unfairly provided this loan to Miss H and didn’t recommend that the complaint be upheld. Miss H disagreed and asked for an ombudsman to review the 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 Miss H’s complaint.

NatWest needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice, what this means is that NatWest needed to carry out proportionate checks to be able to understand whether Miss H could afford to make her repayments before providing this loan.

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 provide loans to a customer irresponsibly.

NatWest says it approved Miss H’s application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked this against information on a credit search it carried out which showed Miss H’s existing commitments were well maintained at the time. In NatWest’s view all of the information it gathered showed that Miss H could comfortably afford to make the repayments she was committing to. On the other hand, Miss H has said her existing indebtedness meant that she shouldn’t have been provided with this loan. I’ve carefully thought about what Miss H and NatWest have said.

It’s clear that NatWest obtained a reasonable amount of information before proceeding with Miss H’s application. And this information does appear to suggest that the loan repayments

were affordable for Miss H. I accept that Miss H may not have gone on to use the funds in the way that she told NatWest she would.

However, NatWest could only make a reasonable decision based on the information it had available at the time. It won't have known that Miss H wouldn't have used the funds to reduce her indebtedness – all it could do was take reasonable steps and rely on assurances from Miss H that she would consolidate debts these funds. So I'm satisfied that the proceeds of this loan could and should have been used to reduce Miss H's balances on more expensive credit.

And as this was a first loan NatWest was arranging for Miss H, there wasn't a history of Miss H obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. So NatWest was reasonably entitled to believe that Miss H would be left in a better position after being provided with this loan.

Given the circumstances, I'd expect NatWest to have a reasonable idea of Miss H's income and committed non-discretionary spending, which it did here. Furthermore, having looked through the bank statements for Miss H's account with NatWest there isn't anything to suggest that the loan payments would clearly have been unaffordable even if Miss H had done what she committed to do. As this is the case, I don't think that NatWest did anything wrong when providing this loan to Miss H - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

So overall and having considered everything, I'm satisfied that NatWest didn't treat Miss H unfairly or unreasonably when lending to her. And I'm not upholding Miss H's complaint. I appreciate this is likely to be very disappointing for Miss H. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Miss H's complaint, I would remind NatWest of its continuing obligation to exercise forbearance and due consideration should Miss H be experiencing difficulty and it choose to collect payments from her, once her payment freeze ends.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 11 September 2023.

Jeshen Narayanan
Ombudsman