

The complaint

Miss H complains that National Westminster Bank Plc gave her a loan that she couldn't afford to repay.

What happened

In 2018, Miss H was an existing customer of NatWest and she applied for a new loan with it to help her consolidate borrowing she held elsewhere. NatWest granted the loan over a six year term with monthly payments of just over £234.

A few years later Miss H complained to NatWest, saying that it should never have provided this loan as she couldn't afford to repay it. She said that if NatWest had performed proper checks then it would have seen that this was the case. Miss H highlighted that she was consistently using her overdraft in the time leading up to the loan application and that she'd increased the limit on this on several occasions in the same time.

NatWest responded to Miss H saying that it fully assessed her income and expenditure at the time and this showed that the loan to refinance existing borrowing was affordable. Miss H disagreed and brought her complaint to this service.

One of our investigators considered the complaint and felt that NatWest hadn't performed reasonable or proportionate checks into Miss H's finances when it provided the loan. So they looked at whether, if NatWest had performed more reasonable and proportionate checks, that this would have changed things. Our investigator didn't think things would be different though – and thought that NatWest would still have lent because what it would have uncovered would have still shown that the loan was affordable.

Miss H disagreed. She felt that the investigator's conclusions that NatWest hadn't checked affordability as it should, yet still meant it was fair to provide the loan were contradictory. She also restated that she was consistently in her overdraft in the period leading up to the loan and explained more about her overall financial situation. So the complaint was passed to me to decide.

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.

As our investigator explained, the relevant rules here mean that NatWest should have performed reasonable and proportionate checks before agreeing to lend to Miss H in the circumstances. So I've firstly considered this.

Having done so, I don't think NatWest did complete checks that were in line with the rules here. NatWest seems to have taken Miss H's declared income – which it's worth noting looks to have been £2,000 a month rather than the £2,500 it said she declared. Then it seems to have made an estimate of her expenditure of around £871 along with £443 for rent. It's worth saying that Miss H's actual average income in the months leading to the loan

being taken looks to have been closer to around £2,700 and her expenditure to have been around £2,300 in the months leading to the application

But, Miss H was a NatWest customer and so it held more information about her than it would for someone who wasn't its customer. In these circumstances, I think it should have been aware that Miss H was – as she points out – making frequent use of her overdraft which she had increased on several occasions leading up to the loan application. A lot of her income was also made up of payments from individuals. So I think NatWest should have made a more detailed and personal assessment of Miss H's circumstances before agreeing to lend to her.

That doesn't mean that the lending itself was automatically unaffordable or irresponsible though. As a service, we have to be impartial and fair to both sides. So what I now need to consider is whether, had NatWest done further checks, would it still have provided this loan as a reasonable lender?

The first thing to consider here is the purpose of the loan. From what I've seen, Miss H took this loan out largely to repay borrowing held elsewhere, such as a number of store cards and two overdrafts held with NatWest. One of these overdrafts was the one that Miss H herself has raised as an issue in her correspondence about this complaint.

The evidence shows that the money from the loan was used for this purpose too. This means that Miss H would have been able to repay borrowing held elsewhere at higher interest rates. Then this loan would have provided her a structured way of repaying these debts at a way that lowered her monthly payments overall. The evidence here supports that this loan would have reduced the payments to these debts from £280 each month to a single payment of £234 to this loan. That seems to be something that would have helped Miss H on a monthly basis.

So, accepting that these store card accounts and overdrafts would have been repaid from the loan – then based on what I've seen, I think any checks NatWest did would have revealed that this loan would have been affordable.

I say this because Miss H's regular income around the time of the loan being provided, including some benefits, looks to have been on average around £2,700 a month and her regular expenditure was around £2,300 a month. This figure excludes the repayments that Miss H was making to the lending that this loan was intended to consolidate. That means that Miss H would have looked to have still had around £400 of disposable income each month after this loan was approved. This being the case, I'm satisfied that if NatWest performed further checks, they would have shown this loan as being affordable. So it follows that I don't think it was unfair for NatWest to have lent here.

It's clear that Miss H began to use her authorised and unauthorised overdraft again very quickly after the loan was granted. The statements show that there was a lot of non-essential spending after the loan was given, which looks to have contributed to this being the case. I don't think this would have been foreseeable for NatWest though, where this happened after the loan was taken out.

Miss H has told us and NatWest about her financial difficulties. I'm sorry to hear about this, but as our investigator mentioned – if Miss H is struggling to repay what she owes NatWest, then she should contact it and tell it about her situation. NatWest should then see what it can do to treat her positively and sympathetically.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 25 August 2023.

James Staples
Ombudsman