Britain Bashes NAB Over Loans

Summary:
NAB CEO Andrew Thorburn will have great difficulty selling NAB's scandal ridden UK operation. Toxic loan products have led to massive damages payments to ripped off customers.

Article Information**Category:** Banking News
Banking Company: NAB
Bank Malpractice Type: Predatory Lending
Unconscionable Conduct
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Source: SMH
Date First Published: 16 Mar 2015

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16 Mar 2015 - 3:19pm





NAB's Loans Nightmare Clouds UK Float Plans

After a recent grilling in the Senate into misconduct in its Australian financial-planning arm, National Australia Bank is assessing the ramifications of a damning parliamentary report into alleged misconduct by its British banks.

The report, prepared by Britain's Treasury Committee, has lifted the veil on the extent of the mis-

selling of complex business loans to small businesses in the United Kingdom.

The report covers a number of UK banks, but – **chillingly for NAB – it calls on its Clydesdale and Yorkshire Banks to overhaul their internal review compensation scheme. "Clydesdale's own internal review of potential mis-selling [of interest rate hedging products to small business] appears to have serious shortcomings,"** the committee says. "It lacks public oversight, transparency and is limited in scope. All three of these problems need to be addressed by Clydesdale."

The bank is quoted in a statement saying its review is "completely in line with FCA [UK regulator the Financial Conduct Authority] guidance", but that it would consider "if there is more information that we can publish about our reviews in light of the committee's comments".

Whatever the case, such withering comments, along with revelations that **Clydesdale sold thousands of these types of loans to unsophisticated small businesses**, has prompted speculation that it will need to look closely at its provisioning levels in the UK, particularly as it prepares its financial books for the half year on March 30.

It has also raised questions about the bank's plans to float its UK banking arm later this year, given the bad publicity, low staff morale (including high turnover of senior staff), a trashed reputation and difficulty in estimating how much compensation it will have to pay victims of mis-selling.

Costs Uncertain

In a company presentation last October, NAB said "determining the total costs associated with conduct-related matters [in the UK] remains subject to a wide range of uncertain factors".

To put it into perspective, in the year to September 2014, NAB booked a £362 million ($699 million) provision for certain interest rate hedging programs it had flogged to small businesses in Britain.

On page 94 of the accounts, it said "the extent of future complaints on TBLs [tailored business loans] is uncertain and a further provision could be required."

Over the same period, NAB booked an additional £515 million provision for claims of potential mis-selling of Payment Protection Insurance (PPI) to its British customers, and another £49 million provision for other "conduct-related matters".

Weeks earlier, BBY published a report on NAB's UK operations which estimated its PPI provision could blow out to £600 million by 2015.

Since then, complaints have continued to pour in. According to Britain's Financial Ombudsman Service, which tracks complaints by individual customers and small businesses, **NAB was the 11th most complained-about lender in the UK** in the six months to December 2014. The FOS report, released a few weeks ago, says **it received 2681 complaints relating to Clydesdale Bank customers during that period, slightly up from 2666 complaints in the previous six months. In the six months to December 2013, FOS received 3157 new complaints from Clydesdale Bank customers.**

> Given the relatively small size of Clydesdale Bank, this should be a wake-up call to NAB CEO Andrew Thorburn to look closely at NAB's culture, both in Australia and overseas, particularly following revelations by Fairfax Media about its advice division and multiple problems within NAB Wealth – a business plagued by cost and time overruns on multiple critical projects, a recent spike in internal breaches reported to regulators, and multiple highly rated internal risks.

Internal Leak

Problems at NAB Wealth came to light last month when a bank insider felt so strongly about its culture, management and systems that a cache of internal documents was released to Fairfax Media.

Those documents included instances of forgery of customer signatures, doctoring of files, repeated compliance breaches, issues of "adequacy of resources being devoted to client complaint handling", and a decision to quietly terminate or "move on" dozens of financial planners in the past two years "due to conflicts of interest, inappropriate advice, inappropriate practices or serious or repeat compliance breaches."

> In Australia, less than 1000 customers have been quietly compensated to the tune of $14.5 million in the past five years. The process has lacked transparency and the victims have been forced to sign confidentiality agreements. NAB is adamant the problems are not systemic, but time will tell.

In the case of its UK operations, the Treasury Committee report was particularly damning of NAB's wholly owned Clydesdale Bank, saying there was evidence it mis-sold TBLs – a product that has an embedded interest rate hedging facility – to small business owners, which "led to considerable consumer detriment".

It says NAB created these TBL products because it knew they were unregulated, and that this has left the regulators "powerless to enforce compensation for customers to whom products were mis-sold". It says Clydesdale itself admitted that its "terms and conditions letters would not pass a plain English test and that its TBL customers could not reasonably have anticipated the high levels of potential break costs to which they had exposed themselves."

The committee says Clydesdale sold 11,271 loans across all of its TBL variants between September 2002 and July 2012. "This included both fixed-rate products and more complex arrangements. Between December 2001 and July 2012, the firm states that it provided 8372 fixed-rate tailored business loans to 6153 customers." It is not known how much money this represents or how many customers have been paid compensation.

Interestingly, the Treasury Committee report says in written evidence submitted to the committee, Clydesdale Bank reported that its voluntary TBL review did not apply to 8372 fixed-rate loans – 81 per cent of its TBL portfolio. It said at June 30, 2014 it had "received 550 complaints about the sales process," which raises questions about the thousands of others who have not been contacted.

Regulation Likely

While NAB has set up a voluntary internal review based on the FCA's Interest Rate Hedging Products Redress Scheme, it is outside the purview of the FCA. To this end, the committee suggests "Treasury should, for the future, undertake a thorough analysis to consider the merits of bringing these [and other similar] products within the scope of regulation".

The Treasury Committee report received a lot of media coverage in the UK. Over the weekend, the Herald Scotland newspaper wrote the headline: "FCA urged to put more pressure on Clydesdale review". It reported that the UK's Economic Secretary to the Treasury, Andrea Leadsom, had ordered the FCA to set up an independent examination of possible "systemic failures" in its redress scheme for mis-sold interest rate hedging products covered by regulation.

It seems the drums are beating for NAB in the UK.

The issue has been a constant drag on the bank's group profits, and its behaviour to customers in the UK has resulted in a number of support groups forming, including the NAB Customer Support Group and Bully Banking (which supports victims of various banks, including NAB). One of Bully Bank's directors, Fiona Sherriff, is a victim of NAB.

Another group, Global Advisory Group, set up by Glenn McDowall, an Australian now living in the UK, says **Clydesdale Bank has been one of the worst offenders of all banks since 2006.**

It seems the bank's "trust me" approach might need to be revised, either voluntarily or – if that doesn't work – with a big stick from the regulators.

Websites For More Information: NAB's Loans Nightmare Clouds UK Float Plans
http://www.smh.com.au/business/banking-and-finance/nabs-loans-nightmare-clouds-uk-float-plans-20150316-1m00tl.html
NAB's UK Arm Clydesdale Bank Under Fresh Fire Over 'tailored business loans'
http://www.smh.com.au/business/banking-and-finance/nabs-uk-arm-clydesdale-bank-under-fresh-fire-over-tailored-business-loans-20150313-142k71.html

Source URL (modified on 16 Mar 2015 - 8:02pm):
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