DRN-2945616

The complaint

Miss B complains that her loan with Nationwide Building Society ("Nationwide") was lent to her irresponsibly.

What happened

In 2014 Miss B took out a £5,000 loan over 48 months. The loan was applied for and approved on Nationwide's website.

Miss B says she was in persistent debt at the time and Nationwide didn't ask for any payslips or bank statements to check the loan was affordable. Miss B says she had debt including payday loans outstanding at the point she applied for the loan. So, she logged a complaint with Nationwide.

Nationwide looked into the complaint but didn't uphold it. It said it checked Miss B's credit worthiness with an external credit reference agency (CRA) and didn't find anything that meant it couldn't lend to her. As Miss B remained unhappy, she brought her complaint our service.

Our investigator looked into the complaint but didn't think it should be upheld. Our investigator said that Miss B demonstrated at the point she took out the loan that she had enough disposable income to pay the loan back. He went on to say that Miss B told Nationwide that she would clear the existing loan and credit card with the new loan, and this would decrease Miss B's monthly outgoings instead of increasing them.

Lastly our investigator found that the other debt including payday loans Miss B referred to her in complaint were taken after the Nationwide loan, so it wouldn't have been aware of it at the point the loan was approved.

Miss B didn't agree with the investigator's view, so the complaints been passed to me for a final decision.

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.

Having done so, I've come to the same outcome as the investigator, for largely the same reasons. I'll explain why.

There are several questions that I've thought about when deciding if Nationwide treated Miss B fairly and reasonably when it provided her with the loan.

1) Did Nationwide complete reasonable and proportionate checks to satisfy itself that Miss B would be able to repay her loan in a sustainable way?

2) If not, what would reasonable and proportionate checks have shown at the time?

3) Ultimately, did Nationwide make a fair lending decision?

4) Did Nationwide act unfairly or unreasonably in some other way?

The rules and regulations at the time of the loan required Nationwide to carry out a reasonable and proportionate assessment of whether Miss B could afford to repay what she borrowed in a sustainable manner. This assessment is usually referred to as an “affordability assessment” or “affordability check”. The checks had to be “borrower” focused – so Nationwide had to think about whether sustainably repaying any amounts lent would cause Miss B any difficulties. In other words, it wasn’t enough for Nationwide to just think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Miss B.

Checks also had to be “proportionate” to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon several factors including – but not limited to – the circumstances of the consumer (e.g. their financial history, current situation and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In the circumstances of this complaint, Miss B borrowed £5,000 over 48 months with a monthly payment of £134.57

The starting point here is that Miss B declared an income that after her existing commitments were paid, left her with enough to pay the new monthly payments and have money spare. That formed part of Nationwide’s income and expenditure check, and it was satisfied it could lend the amount requested based on what she put on her application – pending anything else highlighted from the rest of its checks.

As our investigator has correctly highlighted, Miss B told Nationwide that she would use the new loan to consolidate her existing loan and credit card debt. Having looked at what Miss B had outstanding at the time, I can see that this would’ve been possible and would’ve also left Miss B with money left over. The new Loan payment was £134.57 against the payments she was currently making of over £244, so a decrease in her commitments.

Nationwide has then told us that it used a credit scoring service to asses Miss B’s application. Based on the information available at the time of the loan application, it was satisfied Miss B’s loan was affordable and she didn’t have debt elsewhere that would have an impact on her being able to repay the loan. I’ve seen this credit check and I can’t see any adverse data or anything that may have put Nationwide on notice that they were about to lend irresponsibly. Our investigator has also correctly pointed out that at the point of sale, Miss B had one loan and one credit card, the other loans the credit report has since highlighted were taken out after August 2014.

Miss B’s declared income could also be checked against this report, although Miss B hasn’t told us that she did declare a figure higher than what she earnt. So, I don’t find I need to comment on this further or make a finding.

Miss B told our service that Nationwide should’ve asked her for payslips and bank statements to evidence she couldn’t afford the loan. In some circumstances I’d agree with Miss B that this information should’ve been requested, but not in the circumstances of her complaint. I would’ve expected Nationwide to ask for this information if anything concerning had been highlighted from the credit scoring report or the information Miss B submitted as part of her application. For example, if Miss B had declared a much higher salary than common place for the job she had put on her application, I'd expect her payslips to be checked to make sure the salary she declared was correct.

As there's no evidence to suggest Miss B was struggling financially from the checks Nationwide completed, I'm satisfied they didn't need to scrutinise her finances any further.

Miss B has said she was gambling a significant amount of money at the time and this was another reason Nationwide shouldn't have given her the loan. I've considered this point carefully but unfortunately it doesn't change my decision. Had it been highlighted on any of the checks Nationwide carried out that Miss B had a significant amount of borrowing elsewhere, late payment markers, arrears, or other factors that indicated financial difficulty, I would've expected Nationwide to investigate Miss B's finances further to see where the money was being used. Had it done this it may have found Miss B was using the money for gambling. But as I've explained above, I'm satisfied that the type of lending being discussed here didn't require that level of scrutiny.

Having said that, I can also see that although Miss B had a banking account with Halifax, she was using a third-party account to fund her gambling. So again, this wouldn't have been information readily available to Nationwide had it needed it.

In summary, I don't think it was unreasonable for Nationwide to rely on the payments being affordable as, on the face of things, they did appear to be. I'm also satisfied that the checks it completed were proportionate to what it lent, and these checks didn't show the loan to be unaffordable or sustainable at that point. I've also not found Nationwide acted unfairly or unreasonably in any other way.

I appreciate this will be very disappointing for Miss B. But I hope she understands the reasons for my decision.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 28 December 2021.

Tom Wagstaff
Ombudsman