DRN-3169080

The complaint

Mr L is unhappy that Nationwide Building Society acted irresponsibly in giving him a personal loan as he couldn't afford it.

What happened

In January 2020, Mr L took out a personal loan with Nationwide for £2,900. He agreed to repay £72.49 per month over five years. Mr L settled the loan in September 2021.

Mr L complained that the loan was unaffordable and at the time of application he suffered from mental health problems and a gambling addiction. He believes if Nationwide had carried out the appropriate checks, they wouldn't have lent to him.

Nationwide said that they make their decision based on the amount of risk involved and this determines the interest rate offered. Mr L held his mortgage with them which was always paid on time and they considered this as one of the many factors when he applied for the loan. They also explained they weren't aware of Mr L's situation and a debt balance would have appeared on his credit file if there was an issue.

Our investigator said that Nationwide shouldn't have lent to Mr L and felt it was fair for him to only repay the amount he borrowed. She asked Nationwide to refund any interest and charges along with 8% simple interest. She also asked Nationwide to remove any adverse information from Mr L's credit file.

Mr L accepted. Nationwide disagreed and asked for an ombudsman to review the complaint.

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 reached the same conclusion as our investigator for much the same reasons. I'll explain why.

The relevant rules and guidance require Nationwide to carry out a credit worthiness assessment to ensure any lending is affordable. They were expected to complete reasonable and proportionate checks based on Mr L's individual circumstances to understand if he could afford to repay the loan in a sustainable manner. They also needed to be satisfied that the loan repayments wouldn't cause Mr L undue difficulty or adverse consequences.

In simple terms, this means Nationwide had a responsibility to consider the impact of the loan repayment on Mr L and not just the likelihood of getting their money back. There isn't a set list of checks that Nationwide need to complete. Instead, the assessment is dependent on and proportionate to a number of factors – such as the amount and cost of credit, Mr L's borrowing history etc. So, in theory, these checks could be different from one applicant to another.

As part of assessing the application, Nationwide completed a credit check on Mr L and verified his income details. They took into account that Mr L's mortgage was also held with Nationwide was fully up to date with no late or missed payments. They also calculated Mr L's expenses using information from his credit file and the average household expenditure data from the Office of National Statistics (ONS).

I accept Mr L's credit file didn't indicate that he had any missed payments, recent defaults or county court judgements. But I don't think this means Mr L wasn't struggling with the amount of debt he already had. It also isn't enough to show that Mr L could sustainably repay the loan.

I say this because the credit file also showed that in the year leading up to the application, Mr L opened six accounts – all of those were unsecured loans. And out of the 14 open accounts Mr L had, seven of those accounts were unsecured loans. The total value of those loans excluding his mortgage was £47,056 with total monthly repayments of around £1,120.

This should reasonably have raised red flags and prompted Nationwide to investigate further. I say this because taking out several loans over a short period is a common indicator that someone is becoming or is overly reliant on credit. Also, the level of Mr L's indebtedness was very high in relation his net monthly income of around £2,770. This should have also indicated that there may have been a problem.

I appreciate that it isn't part of Nationwide's process to manually vet every loan application. They've explained it would be detrimental to their members experience and most likely increase the cost of the loan.

But as I explained, proportionate borrower focussed checks is likely to be different for each applicant. In this case, given that the term of Mr L's loan was for a long period (five years) and a significant portion of his monthly income is spent towards credit commitments, Nationwide should have done more to ensure Mr L could repay the loan in a sustainable way.

I don't think the checks Nationwide carried out went far enough. In these circumstances, reasonable and proportionate checks would have likely included asking for and verifying details of Mr L's expenses. I've thought about what information Nationwide would've seen if they had done so.

Nationwide calculated that Mr L had a disposable income in excess of £250 after the new loan payment was considered. However, they didn't ask Mr L for details of his expenditure. They simply used data from the ONS which only provides an estimate of household expenditure as opposed to Mr L's actual expenses each month.

Mr L's bank statements for three months prior to the application, show that he spent more than he was earning each month and his account had entered into an unarranged overdraft of up to around £2,000. There were several gambling transactions showing on his account for amounts in excess of £1,000 on some days. And once this was discovered, Nationwide, as a responsible lender, wouldn't have agreed to lend to Mr L.

Nationwide have suggested that the loan was affordable as Mr L didn't have any problems with keeping up with the loan and mortgage payments. This doesn't make any difference to my decision here. I say this because Mr L appears to have kept up with his credit commitments by borrowing more funds. He has also told us his family have supported him.

Ultimately as I've explained above, had Nationwide carried out reasonable and proportionate checks, I think it would have been clear that it was unlikely Mr L could repay the loan in a sustainable way. And therefore, Nationwide's decision to lend to Mr L was irresponsible.

Mr L has spent the money he borrowed so I think its reasonable for him to repay the loan capital. But as the loan shouldn't have been given to him, Nationwide should refund all the interest and charges Mr L has paid. They should also add 8% simple interest per annum from the date the loan was repaid (24 September 2021) until the date of settlement.

Our investigator had also recommended that Nationwide should remove any adverse information from Mr L's credit file. However, based on what I've seen, Mr L managed his account well and settled it early. This means there isn't any adverse information recorded about this account. So, there isn't anything negative for Nationwide to remove from Mr L's credit fie.

Putting things right

In summary, Nationwide should:

- Refund any interest and charges that Mr L has paid.
- Add 8% simple interest* per annum to this refund amount from the date the loan was redeemed (24 September 2021) to the date of settlement.

*If Nationwide Building Society considers tax should be deducted from the interest element of my award, they should provide Mr L with a certificate of tax, if he requests one, showing how much tax they have taken off.

My final decision

For the reasons I've given, my final decision is that Nationwide Building Society should resolve the complaint in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 11 May 2022.

Ash Weedon
Ombudsman