DRN-3322340

The complaint

Ms L complains about the service she received after she asked Nationwide Building Society ("Nationwide") for support due to the impact of Covid-19.

What happened

Ms L entered into a loan agreement with Nationwide in 2019 with a term of 60 months. As a result of the Covid-19 pandemic, Nationwide agreed a payment holiday on the loan from May to July 2020. At the end of the payment holiday, it wrote to Ms L to set out her options. It said that, if she was able to start making payments again, she would need to sign a new loan agreement online. Alternatively, if she couldn't start making payments again, she needed to let Nationwide know.

On or around 3 August 2020, Ms L contacted Nationwide and explained that her finances were still being impacted by the pandemic. She said she wanted to reduce the monthly payments on her loan. She explained her situation and said she had withdrawn some money from her pension. She said she wanted to use £3,000 of that to pay off part of her loan, keep the same term but reduce the monthly payment. The agent said that wasn't possible but said the loan term could be extended up to seven years.

The agent looked at extending the loan term and gave Ms L some figures for the monthly payments. But she said that to get the monthly payment down to the figure Ms L wanted, the amount of interest payable overall became so high that it wasn't a good idea. She suggested that Ms L could pay the £3,000 into her loan account then cancel her Direct Debit, use the credit as payment for a few months and keep an eye on things. She said that another option would be to extend the payment holiday for another three months but that was risky as it was just storing up the interest problem for afterwards.

The agent said that Ms L could go online herself and try inputting some different loan terms to see what the figures were and whether she could find a workable solution. She said that Ms L would need to complete an income and expenditure form online to do this. Ms L went online and tried to extend the loan term. But her application was declined on the basis that she couldn't afford it.

She rang Nationwide and asked what she should do. She said she'd put in various figures but kept getting taken back to the screen telling her that she couldn't afford the payments, even though they were less than her existing contractual payment. The agent asked if Ms L would like to go through a Statement of Means over the phone, so that she could re-apply. Ms L asked what difference that would make as she'd already input all the information into the form online and had been declined. She asked what would happen if she went through it over the phone and was declined again. The agent said that the account would go down the default route and be transferred to a third party.

Ms L decided not to complete the Statement of Means. Instead, she called Nationwide back later that day and asked for a settlement figure. She paid off the loan in full that same day using the funds she'd withdrawn from her pension. She'd only expected to use £3,000 from the pension towards the loan. But she ended up using more than that to clear the loan in full.

So, she says she had to make a further withdrawal from her pension in September 2020 to cover other costs which she'd planned to pay from the original pension withdrawal.

Ms L was extremely dissatisfied with the service she received from Nationwide and made a complaint. Nationwide accepted that some of the information it had given Ms L was wrong. At one stage, she had been advised she could apply for a Top Up loan. But Nationwide acknowledged that this advice didn't recognise the fact that Ms L had been on a payment holiday due to Covid-19. It paid her £25 as an apology for this mistake. Later on, it paid her a further £100 as an apology for the misleading information she was given about her account being defaulted and passed to a third party.

But Ms L remained unhappy about the situation and asked this service to look into it. Our Adjudicator didn't think Nationwide had acted fairly. She thought that, in addition to the compensation, Nationwide needed to remove any adverse information from Ms L's credit file. She also said that Nationwide should reimburse Ms L for the tax she paid on the second pension withdrawal, less interest which would have been added to the loan during the payment holiday and the £125 already paid to Ms L.

Nationwide didn't agree and asked for the complaint to be reviewed by an Ombudsman. It said the only reason it didn't offer Ms L a further payment holiday or an extension of the loan term was that Ms L declined to complete the Statement of Means during her call with the agent. And it said it would have discussed other options with Ms L before passing her account to a debt collection agency. But it said that Ms L didn't give it the opportunity to see what options were available as she went ahead and paid off the loan in full.

I issued a provisional decision on 28 January 2022. I provisionally upheld the complaint but the address I proposed was different from our Adjudicator's recommendations. Ms L didn't have any comments on the provisional decision. Nationwide didn't agree that it had been unsupportive to Ms L on the phone. It said it couldn't offer her a further payment holiday without her completing a Statement of Means. It said it was Ms L's decision to withdraw funds from her pension to settle the loan and this wasn't something Nationwide had asked her to do. But Nationwide agreed to the redress I provisionally recommended. I'm now making a final decision on this 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.

I've considered Nationwide's comments and thought about everything again. But I haven't changed my mind about the appropriate outcome here. So I'm going to uphold this complaint in the way I indicated in my provisional decision. My reasoning is set out again below.

In July 2020, the Financial Conduct Authority (FCA) updated its guidance on relief measures for customers who were negatively impacted by Covid-19. The updated guidance said that businesses should extend payment holidays by an additional three months for customers who were still struggling and ensure that their credit files weren't negatively affected by this.

It's clear that Ms L was still being financially impacted by Covid-19 when she called Nationwide in August 2020. She was being proactive by getting in touch and trying to find a way to keep her account on track. In the circumstances here, I think Nationwide should have made it clear to Ms L that she might be eligible for a three-month extension of her payment holiday and discussed this option with her seriously. She says that she'd have taken this option if it had been offered to her.

Nationwide says that Ms L didn't ask for a payment holiday extension. But she says she didn't realise it was a possibility so didn't know to ask for one. I think that's reasonable, particularly as Nationwide's letter to her didn't mention it as an option.

Ms L says she wasn't told at the outset that she would have to reapply for the loan after the payment holiday. She says that the effect of taking the payment holiday was that Nationwide cancelled the original loan agreement. She says it then told her to apply for another loan, which it declined on the basis that she didn't qualify. I think the way Nationwide explained the situation at the end of the payment holiday was confusing.

The letter setting out the options talked about signing a new loan agreement. And when Ms L applied for this online, the email message she received said "*Thanks for taking the time to apply for a Personal Loan*" and "*Unfortunately we're unable to offer you a loan at this time because the information shared with us from external credit reference agencies means you don't currently meet our lending criteria*". This message didn't accurately reflect the situation.

Ms L wasn't applying for a new loan - she already had a loan. She didn't need to be assessed as a new loan applicant. Instead, Nationwide needed to acknowledge that she was an existing loan customer who was financially affected by Covid-19. It needed to either offer her support under the FCA coronavirus guidelines or treat her with forbearance in line with existing rules. I don't think it did either here, so I don't think it acted reasonably.

Nationwide then made further mistakes by giving Ms L incorrect information about how her account would be treated. She had already completed an income and expenditure form online and her application had been declined. She says that, even if she had completed the form over the phone with the agent, the data they were inputting would have been the same. So I think it was reasonable for her to assume that the outcome would be the same. I think it was logical for her ask what would happen if the application was declined again. The agent told her that the account would be defaulted and transferred to a third party.

Nationwide accepts that this information wasn't correct and says it would have discussed other options with Ms L before passing her account to a debt collection agent as a last resort. But that's not what Ms L was told and I think it was reasonable for her to assume that the information she was given over the phone was correct.

Her communications with Nationwide up to that point can be summarised as follows: (a) she needed to start making payments again or tell Nationwide that she couldn't do so, (b) her monthly payment couldn't be reduced even if she paid off part of the loan, (c) she could apply online to extend the loan term, (d) her application was declined for affordability reasons, (e) she should apply again with the agent over the phone, (f) no other options were suggested and (g) if that application were to be declined (which, as above, she felt sure it would be) her account would be defaulted and passed to debt collectors. Ms L says she thought the only viable option was to pay off the loan in full. I think that was a reasonable conclusion for her to reach in the circumstances.

Nationwide's mistakes caused Ms L considerable distress. The worry and inconvenience she experienced could have been avoided if Nationwide had either extended her payment holiday or suggested reasonable alternative ways forward. Withdrawing money from her pension so that she could clear the loan early also had a financial cost for Ms L. I think that could also have been avoided if Nationwide had adopted a more reasonable approach, in line with the FCA's coronavirus guidance or normal forbearance rules for customers experiencing financial difficulty.

Putting things right

To put things right, I think Nationwide needs to remove any adverse information about the loan from Ms L's credit file from the day she first contacted it in August 2020. It should also reimburse her for the tax she incurred on the second pension withdrawal. And it should pay her compensation for the distress and inconvenience she experienced.

I understand that the tax on the additional pension withdrawal was £1,197.37. So Nationwide should reimburse that amount. I don't think any interest needs to be deducted as any interest due to Nationwide should have been factored into the early settlement figure.

I don't think the compensation of £125 should be deducted from this amount either. That's because Ms L needs to be reimbursed for the full amount by which she is out of pocket. The compensation payment is for distress and inconvenience she suffered and is an additional award on top of the financial loss.

Taking everything into account, I don't think £125 is enough compensation here. The distress caused to Ms L was significant. She also had to take unnecessary steps at inconvenience and stress to herself in order to do what she thought was necessary to preserve her good financial standing. This was because Nationwide unreasonably declined to follow the FCA's coronavirus guidance, gave her incorrect advice and failed to show her forbearance. I think compensation of £300 would be appropriate. As Nationwide has already paid £125 to Ms L, it will need to pay a further £175.

My final decision

For the reasons above, I uphold this complaint. Nationwide Building Society should:

- remove any adverse information reported to the Credit Reference Agencies from the day of Ms L's first call to Nationwide in August 2020;
- pay Ms L £1,197.37 for financial loss she suffered in the form of tax on her pension withdrawal; and
- pay Ms L further compensation of £175 for the distress and inconvenience she experienced.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 29 March 2022.

Katy Kidd
Ombudsman