

The complaint

Miss B has complained that Nationwide Building Society lent to her irresponsibly when it increased the credit limit on her credit card.

What happened

Miss B took the credit card out in 2010 with an opening credit limit of £3,200. In February 2012 the credit limit was increased to £4,200.

Miss B says she had an income of £30,000 per year when she took the card out. However, she'd subsequently left work to have her son and was receiving no income at all in 2012. She received income support from 2013 and in 2015 she went back to work part-time, earning about £900 per month.

Miss B says that Nationwide failed to carry out sufficient checks prior to offering her the credit increase. If it had, it would have realized that her situation had changed significantly from when she first applied for the card. In particular, she had a lot of other borrowing that she was struggling to repay. In addition, she was experiencing domestic violence and her then husband was controlling her finances. As a result, her overall debt increased and she began having to prioritise making the minimum payment on this and other cards, which left her with very little left each month to cover necessities for herself and her son such as food and fuel to get to work.

Nationwide says the offer to increase limits is based on the activity and management of the card account and that Miss B was managing it well at that point which showed that she was finding it affordable. Miss B had also scored well on a lending overview.

Our investigator upheld Miss B's complaint. She thought that Nationwide had acted unfairly in not carrying out additional checks. Nationwide disagrees with the investigator's opinion and so the complaint has been passed to me for a 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.

I've also taken into account the law, any relevant regulatory rules and good industry practice at the time. Having done so, I've decided to uphold Miss B's complaint and I'll explain why.

Nationwide needed to make proportionate checks to determine whether the lending was affordable and sustainable for Miss B. There's no prescribed list of checks a lender should make. But the kinds of things I expect lenders to consider include the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

When Nationwide increased Miss B's credit limit by £1,000 in February 2012, it reviewed how the account was being maintained at that time. It says it saw nothing that would indicate

that Miss B was having trouble managing the account. It is the case that Miss B was not using her full existing credit limit at the time and that in the previous month she'd paid off £200 which was more than the minimum repayment. Based on this information alone, I agree that Nationwide shouldn't have had any concerns about raising the credit limit. However, that doesn't paint the full picture of Miss B's circumstances at the time.

In addition to assessing how the account was being managed, Nationwide also carried out a lending overview. The lending overview suggested that Miss B was earning around £21,000. This was an estimate based on internal and external information. The review also showed that she had unsecured debts of just over £26,000. That's a high amount of borrowing when compared to her annual income and could suggest that further lending here may have been unsustainable.

Miss B says she wasn't earning anything at the time, or at best she was on income support. Therefore, it's likely that Nationwide's estimate of her income was widely inaccurate. However, even if she had been earning £21,000, her level of debt was more than that, showing that she was heavily indebted. I consider that this should have prompted Nationwide to carry out further checks to try and gain a more in-depth understanding of Miss B's finances before offering her more credit. Had it carried out further checks, it's likely that it would have come to light that Miss B was not working at the time. As such, given her already high level of debt, I think it's more likely than not that it would have concluded that any additional lending would have been unaffordable to her.

Taking everything into account, I don't think that Nationwide should have increased Miss B's credit limit because her existing lending appeared to be becoming unaffordable to her. Therefore, its decision to extend Miss B's credit limit in February 2012 was unfair.

Putting things right

As it wasn't fair that Nationwide increased Miss B's credit limit above £3,200, it should refund any interest or charges on any balances which exceeded that amount.

Therefore, Nationwide should:

- Rework the account, removing all interest and charges that have been applied to balances above £3,200 from the date of the credit limit increase in February 2012.
- If the rework results in a credit balance, this should be refunded to Miss B along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Nationwide should also remove all adverse information recorded after the February 2012 credit limit increase regarding this account from Miss B's credit file.
- Or, if after the rework the outstanding amount still exceeds £3,200, Nationwide should arrange an affordable repayment plan with Miss B for the remaining amount. Once Miss B has cleared the outstanding balance, any adverse information recorded after the February 2012 credit increase in relation to the account should be removed from her credit file.
- Nationwide has sold the debt to a third party. Therefore, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Nationwide to deduct tax from any award of interest. It must give Miss B a certificate showing how much tax has been taken off if she asks for one. If Nationwide intends to apply the refund to reduce an outstanding balance, it must do so after deducting tax.

My final decision

For the reasons set out above, I uphold Miss B's complaint. Nationwide Building Society should pay fair compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 30 August 2022.

Carole Clark
Ombudsman