

The complaint

Ms J complains that Nationwide Building Society irresponsibly granted her a loan she couldn't afford to repay.

What happened

Nationwide provided a loan of £7,500 for Ms J in February 2014. Some of the loan was used to clear an existing loan. The loan was to be repaid at £154 a month over five years, and the total owed including interest came to £9,245 (all figures rounded).

Ms J met her payments in 2014 but made token payments in early 2015, having let Nationwide know she was on sick leave and receiving statutory sick pay. Nationwide agreed a repayment plan with Ms J from May 2015 through a national debt charity. This continued until Nationwide accepted a reduced amount to settle the loan in 2021.

Ms J complained to Nationwide that the loan was unaffordable from the beginning and said that it should not have agreed to lend to her given her financial circumstances at the time. She said she was in financial turmoil and was desperate for credit to pay off her existing debt.

Nationwide didn't uphold Ms J's complaint. It said that its checks were in line with the regulations and explained that it accepted a settlement figure of £975 from her in December 2021 and wrote off an outstanding amount of £3,900 in closing the account.

Ms J referred her complaint to us. Our investigator looked into it and found that Nationwide should have seen from the information it had that the loan was likely to be unaffordable for Ms J. They recommended that Nationwide refund any payments Ms J made above the capital amount she borrowed and that it remove any adverse information relating to the loan from her credit file.

Nationwide didn't agree with this recommendation and asked for the complaint to come to an ombudsman to review and resolve. I issued a provisional decision on 12 October 2022 explaining why I thought Ms J's complaint should be upheld but why I wasn't planning to direct Nationwide to pay her any compensation. Ms J responded to my provisional decision to say that she agreed with my findings and had no new information to provide. I haven't had any response from Nationwide.

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 had regard to the regulator's rules and guidance on responsible lending which lenders, such as Nationwide, need to abide by. Nationwide will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to

set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Having considered everything again and having no new information from either party, I remain of the view that Ms J's complaint should be upheld but I don't require Nationwide to take any action. I'll set out my reasons again in this final decision.

Ms J told Nationwide that her monthly wages were £1,311 and it checked this against her payslips. Ms J said she paid £530 a month rent, and Nationwide estimated her monthly expenses as £490. It checked her credit file and estimated that she spent a further £66 a month repaying her existing debt, aside from the loan she wished to consolidate. This left Ms J with an estimated £225 to cover her new loan payment (of £154) and meet any unexpected costs.

Our investigator found that, based on this assessment, Ms J wasn't left with a sufficient amount to meet any unaccounted for or unexpected costs. In response, Nationwide said it had carried out a robust affordability assessment which included an estimate of non-discretionary spending including food, bills and travel, so living expenses had been taken into account. It said Ms J wasn't expected to live off £75 each month but this was an estimate of her discretionary spend only.

Nationwide said "Therefore, we have followed CONC guidance as to how we should conduct an affordability assessment by taking into account non-discretionary expenditure and debt repayments. CONC doesn't require us to include a buffer of any particular amount, just to assess if the loan is affordable for the member which we have done. The level of disposable income necessary for discretionary spend or unforeseen bills is a subjective amount and will be dependent on personal circumstances."

Let me begin by saying that the regulations in place at the time were set out in the Office of Fair Trading's Irresponsible Lending Guidance (ILG). The current regulator's guidance is set out in its consumer credit handbook (CONC) though it does follow on from and reference the previous guidance.

The ILG said that it may be appropriate to assume a reasonable level of domestic outgoings on a day to day expenditure. However, it also said that lenders needed to do more than solely assess whether or not a borrower could afford to repay the credit in question – they needed to take reasonable steps to assess a borrower's likely ability to be able to meet repayments under the credit agreement in a sustainable manner over the lifetime of the agreement, in other words while meeting existing commitments and normal outgoings, and without having to borrow further.

I agree with Nationwide when it says that the level of disposable income necessary for unforeseen bills is dependent on personal circumstances. I've noted that Ms J didn't have any dependents at the time but beyond that, I don't have any information about her personal circumstances. However, whether or not the level of disposable income remaining poses a risk that a borrower might not meet repayments sustainably also depends on the context of the lending. Had Ms J applied for a small loan with a short term then it might have been reasonable to proceed on the basis of this estimate. In this case, Ms J was borrowing a relatively significant amount and would need to meet her repayments for five years. On balance, I think it's likely that leaving her with this level of disposable income posed a risk to her of not meeting her repayments sustainably.

Had Nationwide gone further in its assessment and looked into Ms J's finances in more depth before lending, I think it's likely it would have declined to lend to her. Ms J hasn't provided me with her bank statements or her credit file record (either from the time or

current) so I can't say with certainty that a further review of her finances would have led to the loan being declined. However, Ms J has provided an income and expenditure assessment carried out with a national debt charity in August 2014, just six months after her loan began. This showed that she didn't have enough disposable income to meet her loan repayments and I think it's more likely than not that this was the case when the loan was agreed. In May 2015, Nationwide accepted a repayment plan based on similar information from the debt charity.

Altogether, I've concluded that Nationwide was irresponsible to have lent to Ms J on this occasion.

When Ms J asked to make token repayments when she was on sick leave, Nationwide accepted this. When she asked to set up a repayment plan via the debt charity on her return to work, Nationwide also accepted this, and stopped charging interest to the account. Nationwide continued to accept reduced payments from Ms J until late 2021, when it then accepted a significantly reduced final amount to settle the account. Our investigator recommended that Nationwide refund to Ms J any payments she made above the capital borrowed. I can see from the account information Nationwide provided that Ms J repaid significantly less than she borrowed and so in this case there isn't any refund owing.

I've also noted that while Nationwide reported Ms J's account as being in arrears during the period of token payments in early 2015, it says it then reported her account as being in an arrangement to pay. I understand that this wasn't the only debt included in her debt management plan or the only one which was settled with a reduced amount and I assume these were also reported as being in arrangements to pay. I've also assumed that any adverse information regarding arrears on this loan or a default (if one was reported) in 2015 would not now be showing on Ms J's credit file, and Ms J hasn't mentioned adverse impacts on her credit file in her complaint to us.

In summary, while I've concluded that Nationwide shouldn't have agreed this loan for Ms J, I've also concluded that it doesn't need to take any steps to put things right for her.

My final decision

For the reasons given above, I'm upholding Ms J's complaint about Nationwide Building Society though I do not require it to take any action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 28 November 2022.

Michelle Boundy
Ombudsman