DRN-4158608

The complaint

Mr P complains that Nationwide Building Society lent to him irresponsibly.

What happened

Mr P took out three loans. The first was in August 2020 for £5,000, the second in September 2020 for £1,000 and the final loan was for £11,087 in March 2021.

Mr P says he couldn't afford the credit. He says he was gambling heavily and already had large debts elsewhere. He thinks Nationwide shouldn't have lent to him in the circumstances. Mr P asks for the interest on the loans to be refunded.

Nationwide says it did all the necessary checks before it lent to Mr P and it didn't see anything which might make it think he couldn't afford the loans.

Our adjudicator considered that Mr P's complaint should be partially upheld. They thought that Nationwide had completed necessary and proportionate checks in relation to the first and second loans but that in the case of the third loan it had failed to act to do so. Our adjudicator thought that if Nationwide had done those checks it would have realised Mr P couldn't afford the borrowing. fairly on the outcome of those checks.

Nationwide disagreed with the view. It said that it agreed with the adjudicator's view about the first two loans, but not the final one. Mr P agreed with the adjudicator's view about the last loan, but not the first two.

As neither party agreed with the view, the complaint has been passed to me to make 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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mr P's complaint.

Having done so, I have come to the same conclusion as our adjudicator. I will explain why I have reached this decision.

Nationwide needed to take reasonable steps to make sure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr P could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, how much borrowing Mr P had elsewhere and Mr P's income and expenditure. There is no prescriptive list of what checks need to be done. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that that the lending was unsustainable.

Nationwide said that it conducted checks to ensure that the credit would be affordable for Mr P when he took out the first loan. It has provided some evidence of what it saw about Mr P's finances at the time. This shows that Mr P declared an income of £1,950 which was verified by further checks with a credit reference agency. It also assessed Mr P's income using comparable Office of National Statistics (ONS) date and concluded that his living expenses were in the region of £550 a month. Mr P had borrowing elsewhere and when taking his estimated repayments on those debts into account Nationwide concluded Mr P would have been left with a disposable income of £814.23 each month.

Mr P hasn't disputed Nationwide's estimates here, so on the information available to me I think Nationwide did necessary and proportionate checks and acted fairly on the results of those checks.

The situation was the same about a month later when Mr P requested a further loan of £1,000, ostensibly for car repairs. His first loan had been to buy a car. Mr P's circumstances hadn't changed significantly in that time but, so the outcomes of the checks were similar (indeed, it assessed his repayments on existing debt to have reduced). Again, I don't think Nationwide did anything wrong here.

About six months later, Mr P applied for another loan. This time it was for just over £11,000 in total and was a top up for loan one and consolidated both loans one and two. It constituted additional borrowing of £6,000 at a more favourable interest rate. Mr P's additional costs for the borrowing were around £137. His disposable income was assessed as around the same as before which, on the face of it, made it look affordable.

However, in the information Nationwide saw, it seems that Mr P's circumstances had changed since they last checked. His borrowing had increased to over £15,400 from around £10,000 six months previously. He declared for the third time in eight months that he was buying a car or repairing a car. I think this ought to have led Nationwide to conduct further checks by verifying his income and expenditure.

The only way Nationwide could have done this would be by asking to see Mr P's bank statements. Mr P has provided bank statements for the account where his salary went into and from which he paid his bills. From these I can see that he was regularly significantly overdrawn. At the time of taking the loan he was overdrawn by £1,400. This appears to have been because he had been gambling heavily. Over the three months prior to the loan, he had spent £1500 on gambling. So, while notionally, he appeared to have sufficient disposable income to manage his existing repayments and his new borrowing, in reality his gambling, which Mr P indicates was out of control, was causing him to get further into debt.

Nationwide submits that it is unreasonable to expect these types of checks to be completed given the volume of loans it deals with. It says that Mr P had an account with Nationwide which didn't show any concerns. As I have said before, the checks it needed to complete are not prescriptive, and nor is the point at which further checks need to be made defined in the rules and regulations. However, in my view I am satisfied that Nationwide needed to complete more checks than it did and, on the balance of probabilities, had it done so it would have understood Mr P was in financial difficulty and would be unlikely to be able to sustainably repay his borrowing. I think Mr P lost out as a result.

Putting things right

Nationwide should not have provided the third loan to Mr P. To settle this complaint Nationwide should do the following:

- Add up the total amount of money Mr P received as a result of having been given this loan.
- Subtract the repayments Mr P has made from this amount.
- If this results in Mr P having paid more than he received, any overpayments must be refunded along with 8% simple interest* calculated from the date the overpayments were made to the date of settlement.
- If any capital balance remains outstanding, Nationwide should arrange an affordable and suitable payment plan with Mr P. If no such arrangement can be agreed, Mr P can return to this service to make a further complaint.
- Remove any negative information recorded on Mr P's credit file as a result of the interest and charges of the loan, but also to remove any negative information recorded on his credit file regarding the loan once the outstanding balance has been cleared

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

My final decision

I have decided that Nationwide Building Society acted unfairly when it gave Mr P the third loan. To put things right I direct Nationwide Building Society to pay compensation as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 29 August 2023.

Sally Allbeury
Ombudsman