

The complaint

Miss K says that Nationwide Building Society (“Nationwide”) acted unfairly by continuing to apply charges to her account when she was in financial difficulty.

What happened

Miss K holds an account with Nationwide with a £2,000 overdraft. Miss K complained to Nationwide regarding the affordability of her overdraft. Miss K says Nationwide should’ve realised she was in financial difficulty and would like a refund of the charges and interest applied to her account.

Nationwide says following a review of Miss K’s statements it didn’t think there was evidence of true financial difficulties due to the large amount of cash withdrawals and didn’t uphold her complaint.

Miss K’s complaint was considered by one of our adjudicators. They thought having reviewed Miss K’s statements that Nationwide should refund all fees and charges applied to Miss K’s account from February 2021 because her statements showed she had multiple payday loans, returned direct debits and wasn’t able to maintain a credit balance for a reasonable period of time. They thought the statements showed Miss K was clearly struggling and that her overdraft usage was not sustainable.

Nationwide disagreed. It says due to the pandemic it paused the removal of overdrafts and that instead of removing overdrafts where there were signs of financial difficulty the customer would instead enter its Repeat Use Strategy. When this happened Nationwide would highlight to the customer the pattern of their overdraft use and encourage them to contact its collections team to discuss their borrowing.

Miss K entered Nationwide’s Repeat Use Strategy in September 2020. It says it made a number of outbound calls as well as sending emails and letters to Miss K but she did not make contact. So it continued to charge interest in accordance with the terms and conditions of the account.

So the complaint came 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.

Nationwide will be familiar with all the rules, regulations and good industry practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don’t consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I'm in agreement with our adjudicator and I think Nationwide acted unfairly when it continued charging overdraft interest and associated fees on Miss K's account from February 2021.

By this point Nationwide itself had entered Miss K in its "Repeat Use Strategy" and ought to have realised that Miss K's use of her overdraft was unsustainable and that Miss K was in no position to repay what she owed within a reasonable period of time. Miss K's statements show that although she had a healthy salary coming in, she was living off borrowed money in the form of payday and other loans and that she was unable to see or maintain a credit balance for any reasonable period of time and often had direct debits returned. I accept Miss K regularly made cash withdrawals. But I think it is clear from the amount of other high cost lending she had that she was struggling financially. In these circumstances, Nationwide ought to have realised that Miss K was at a significant risk of being unable to repay what she already owed.

Nationwide say it contacted Miss K on numerous occasions about her overdraft usage and that she never responded. But Nationwide has provided me with a record of its contact with Miss K for the period in question and it shows that there was one phone call in October 2020 and one email was sent in July 2021. The records show all other contact mainly took place in August 2022. By entering Miss K in its "Repeat Use Strategy" Nationwide was clearly aware Miss K wasn't using the overdraft as intended but it still took no proactive action. Nationwide should have stopped providing the overdraft on the same terms and treated Miss K with forbearance rather than charge even more interest, fees and charges on the overdraft.

Miss K ended up paying additional interest, fees and charges on her overdraft and this ended up exacerbating difficulties she already had in trying to clear it. So I think that Nationwide didn't treat Miss K fairly and she lost out because of what Nationwide did wrong. And this means that it should put things right.

Putting things right

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Miss K's complaint for Nationwide to put things right by:

- Reworking Miss K's current overdraft balance so that all interest, fees and charges applied to it from February 2021 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Nationwide should contact Miss K to arrange a suitable repayment plan. If it considers it appropriate to record negative information on Miss K's credit file, Nationwide should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in February 2021.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss K along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Nationwide should remove any adverse information from Miss K's credit file.

† HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Miss K a certificate showing how much tax it has taken off if they ask for one.

My final decision

For the reasons I've explained, I uphold Miss K's complaint against Nationwide Building Society and direct it pay the fair compensation I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 25 July 2023.

Caroline Davies
Ombudsman