

## **The complaint**

Mr J complains that Nationwide Building Society irresponsibly provided him with a credit card, and increased the limit, which he couldn't afford the payments on.

## **What happened**

Nationwide provided Mr J with a credit card on 17 September 2014. He was given an initial credit limit of £3,200, which was increased at his request on 1 October 2014, to £3,800. Mr J said that when he applied Nationwide should have checked his credit record and would have seen he had recent missed payments to credit cards and loans. His debt load was excessive relative to his income and expenditure, he was only making minimum payments on his credit cards and had an excessively high and unsustainable credit utilisation rate. Also between 2010 and November 2014, he was self-employed and had negligible income from work - so effectively unemployed. The only income he had during this period was from gambling related winnings, but he also had heavy gambling losses. He said the card was primarily used to continue to facilitate his gambling habit.

Mr J has shown us his bank account statements showing transactions dating back to 2012. He has also provided copies of his tax returns for 2013-14 and 2014-15. He has also shown us a recent credit report.

Nationwide said it correctly followed all its procedures at the time and didn't agree it had made an error.

On referral to the Financial Ombudsman Service our adjudicator said that had Nationwide attempted to verify Mr J's income it would've discovered there wasn't any regular earned income, and with little or no income didn't feel the credit card would've appeared affordable. So he said Nationwide should refund all the interest and other charges on the account.

Nationwide disagreed. It said Mr J didn't declare he was self-employed in his application. Instead, he confirmed he was employed, working for P Ltd and declared his gross annual income as £40,000. His application was considered low risk because he had no adverse history either with it or through the management of any accounts he held with it or the credit referencing agencies and had a very good credit score at the time of his application. There was no aspect of Mr J's application that would have triggered a manual review of the information provided, which it took in good faith. It operates a sophisticated automated application checking system which verifies an applicant's income, their credit commitments and reviews any adverse/negative credit file insertions from the respective bureaus.

Nationwide further pointed out that Mr J had knowingly falsified information on his credit card application, and then entered a legally binding credit agreement with it, having deliberately given incorrect information, which misled it into proceeding with his credit card. It questioned the ethical position of providing him with redress for that.

Whilst it hasn't retained records of the actual checks carried out, Nationwide has shown us charts of Mr J's history of use of the account, and the number of defaults and cash advances on his record at the time of application, and going forward. After increasing the credit limit in

October 2014, Nationwide said that Mr J used up the credit limit rapidly, and the account was revoked on 31 October 2014, with no further credit provided.

I issued a provisional decision. I said that on the basis of the evidence I'd seen, I couldn't say that Nationwide's decision to issue the card or to raise the credit limit was irresponsible.

Nationwide accepted my provisional findings.

Mr J disagreed, he pointed out that he had the following debts at the time of taking out the credit card (in the order set out in his response):

- A £20,000 loan taken out on in August 2014
- A £21,000 loan taken out in August 2014
- Overdraft facilities for two bank accounts (not used) of £5,000 each
- Credit card 1, issued in 2008, which was at or near its £5,000 limit with minimum payments being made until 10 September 2014 when loan funds were used to pay £2,000
- Credit card 2, also issued in 2008, was also near its £5,000 limit
- Credit card, 3, with a £6,000 limit, first payment made on 18 September 2014
- Credit card 4 with a £3,000 limit, first payment made on 1 October 2014
- Credit card 5, £5,000. limit, first payment made on 3 October 2014
- Credit card 6, £4,000 limit, applied for at the same time as the Nationwide card
- Credit card 7, £3,000 limit, issued on 18 September 2014

He said he had rental costs of £1,750 per month and utilities, food, and other living expenses of c.£1k+ per month. So in total he said his living costs and debt repayment obligations were c.£3,730-£4,160 per month. Based on an anticipated income of £40,000 this would have worked out at about £2,500 to £2,600 a month which he said he clearly wouldn't have been in a position to pay. So he said that Nationwide providing the credit card and the limit increase was clearly irresponsible.

### **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 set out below my provisional findings, in italics:

*“Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've taken that approach into account in considering Mr J's complaint.*

*So, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but it needs to ensure the checks are proportionate when considering things like the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. As a lending relationship continues over time and the level of credit increases, lenders may need to obtain further information from a borrower to check whether they're lending responsibly and that the repayments are sustainable for the customer.*

*Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:*

- *Did Nationwide complete reasonable and proportionate checks to satisfy itself that Mr J would be able to repay the credit advanced in a sustainable way?*
- *If not, would those checks have shown that Mr J would have been able to do so?*
- *Bearing in mind the circumstances at the time of each application, was there a point where Nationwide ought reasonably to have realised it was increasing Mr J's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?*

*Mr J's bank account (with another provider) at the time does show substantial gambling transactions, but these appear to have been funded by transfers from other accounts. The account was in credit and had been for some time. I note that after 6 October 2014 the account became overdrawn and thereafter remained overdrawn - up to £5,000.*

*I can see Mr J had another credit card with varying though regular payments made on it but I don't know what the balance would have been. I see he also took out a loan in May 2014 for £12,500 and was paying another loan payment of £163 a month. I don't think for this credit card it would have been proportionate to expect Nationwide to review bank statements. As the account was in credit which would have shown on any credit report, this wouldn't have been a warning sign to consider his expenditure in greater detail. So Nationwide wouldn't have seen Mr J's gambling record.*

*Mr J says his income was negligible from work up until November 2014 when he started employment. But that's not what he told Nationwide – he said he was employed by P Ltd with an income of £40,000. In fact P Ltd was a company of which Mr J was the sole director. His tax returns show, for 2013-14 income from employment of £5,500 and capital gains of £17,500. For 2014-15 his income from employment is shown as £23,100 with a net loss from self-employment of £18,200.*

*The problem with the tax returns is that as the application was made in September 2014 the 2013-14 statement wouldn't have shown Mr J's up to date income and the 2014-15 information wouldn't have been available. And I wouldn't have expected Nationwide to ask for tax records.*

*There are transactions on Mr J's statements showing money going to and coming from P Ltd, including a payment on 1 September 2014 of £12,500. There was an earlier payment out to P Ltd of the same amount. However there are other such payments (albeit on an irregular basis) from P Ltd and Mr J declared on his tax return that he was employed by P Ltd. (as a director) as of April 2014.*

*I think our adjudicator assumed that Nationwide didn't verify Mr J's declared income. Although Nationwide says its procedures carry out an automatic verification. I think if the verification was done today it wouldn't show that Mr J had a regular income. But I'm conscious that in 2014 the technical aspects of such a procedure would have been less sophisticated. I think Nationwide should have carried out an income verification. Given that it says it did so I can't say that any such check wouldn't have verified Mr P's declared income.*

*I've noted Mr J's credit report. But given that it is a recent check, it doesn't show any records far enough back to inform me about his credit position in September 2014. I don't think that, at the time of his making the application there is sufficient information to find that Mr J's credit status was bad as he says it was. I'm aware that he made other applications for loans etc at the same time and it would seem likely that these contributed to him having a poor record. And Nationwide was sufficiently concerned about Mr P's use of his account to revoke the credit within six weeks of taking it out.*

*I've noted that the credit limit was increased, apparently at Mr J's request, on 1 October 2014. Nationwide says that its procedures allowed for that and there was nothing to suggest it shouldn't have raised the limit. Normally I would expect Nationwide to carry out further checks/verification. But as this was within two weeks of the initial application, the checks wouldn't have been expected to reveal anything different. At that stage Mr J's use of the account didn't raise any concerns and a further income check would've been pointless.*

*So, on the basis of the evidence I've seen, I can't say that Nationwide's decision to issue the card or to raise the credit limit was irresponsible."*

I should restate, before dealing with the points Mr J made in response to the provisional findings, that as Mr J made his complaint to Nationwide after more than six years, the evidence it is able to show us is limited, as it's not obliged to keep such records beyond that length of time. This does mean that in assessing what information was available to Nationwide about Mr J's financial circumstances at the time, I have to consider what it is *likely* to have seen. I can assure Mr J that I have reviewed all the information he has provided to us, which is the same information our adjudicator saw.

So, as regards the two loans he took out in August 2014, and credit cards 3 to 7, I think it is unlikely that Nationwide would have seen these on any credit check. This is because they were all taken out around the same time, the earliest being some time in August 2014. Credit reference agencies often take 60 days (or more) to update. So, even at the time of the credit limit increase on 1 October 2014, I don't think, unless Mr J told it, Nationwide would have been aware of any of those loans or credit cards. More importantly the likely payments for those loans or credit cards would not have shown up as part of Mr J's monthly outgoings, so again unless he told Nationwide about them, it wouldn't have known (and I think it unlikely that he did).

I don't think an unused overdraft facility would have been likely to prompt any concern about Mr J's financial circumstances.

As regards the information Nationwide was likely to have seen, it appears that it would have seen credit cards 1 and 2. Looking at Mr J's bank statements, I can see no payments for credit card 2. This may have appeared on another account but I have no other information, apart from what Mr J has told us, about it. With regard to credit card 1, if this had a £5,000 limit, and he was near that limit, Mr J had been paying substantially more than a minimum payment in the months before the application. In respect of the loan taken out in May 2014 there is no evidence in the bank statements I've seen, of any payments for this loan.

As regards Mr J's monthly expenditure it was his responsibility, as with his income, to provide accurate information. Accepting that £40,000 works out at a net figure of £2,500 a month. So if he did have rent of £1,750 and £1,000 other expenditure (not including credit/loan payments), I think it very unlikely that if he had declared those figures to Nationwide (or any other loan/credit provider at the time), he would have had a card issued to him. It appears likely that Nationwide relied on the figures given to it by Mr J, and I think it was reasonable and proportionate of it to do so. Although I don't have the information relating to what those figures were, nevertheless I would observe that up until the time of the application Mr J's bank account was in credit.

So I'm not persuaded to change my provisional findings. Those findings are now final and form part of this final decision.

**My final decision**

I don't uphold the complaint.

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

Ray Lawley  
**Ombudsman**