

The complaint

Mr F complains that Nationwide Building Society was irresponsible in its lending to him.

What happened

Mr F was provided with a £10,000 loan by Nationwide in August 2020. The loan term was 84 months, and he was required to make monthly repayments of around £143. The total amount repayable was around £12,018.

Mr F says that at the time the loan was provided he was on unemployment benefits. He says the income he declared included a family member's income from an online auction site business which was set up using his account and that the loan was being used to support this business. Part way into the loan Mr F has said that Nationwide carried out an enhanced due diligence check which resulted in his account being frozen and the loan being unpaid and arrears building. Mr F says while the family member was previously making the repayments he isn't anymore. He thinks that had adequate checks been undertaken, Nationwide would have realised the loan wasn't affordable for him.

Nationwide issued a final response letter dated 5 October 2022. It said that all checks were carried out as per its process and it was unable to identify any issues with these. Therefore, it didn't find the loan had been mis-sold.

Mr F wasn't satisfied with Nationwide's response and referred his complaint to this service.

Our investigator upheld this complaint. He thought that given the size and term of the loan, further checks should have taken place. He noted that Mr F's bank account was with Nationwide and so it had access to this information and said that while based on Nationwide's checks the loan appeared affordable further checks should have taken place and had these happened they would have raised concerns. Because of this he didn't think that Nationwide had made a fair lending decision.

Nationwide didn't agree with our investigator's view. It noted that Mr F said he provided the loan proceeds to a family member but said it couldn't control what happened to the loan after provision and didn't consider this pertinent to the case. In regard to the lending decision, it said that it operated a sophisticated automated application checking system which verifies an applicant's income and credit commitments and reviews their credit file information with a credit reference agency. It said that manual checks would only take place if the application triggers a referral, which didn't happen with Mr F's loan application. It said Mr F declared himself as self-employed and had no existing debts. It said that Mr F answered 'No' to the question as to whether his income was likely to reduce over the loan term.

Nationwide said its checks were proportionate given the size and term of the loan and the information it received showed the loan to be affordable.

My provisional conclusions

I issued a provisional decision on this complaint. My findings are set out below.

Nationwide has explained that Mr F's application went through its automated application checking system through which his income was verified, and credit commitments and credit information reviewed. This process recorded Mr F as single and living with parents and being self-employed with a net monthly income of £2,000. His credit check showed he had no existing credit commitments. Based on the information received through these checks I agree that the loan, with monthly repayments of around £143 seemed affordable. But I still need to consider whether the checks were proportionate and whether Nationwide made a fair lending decision.

Given the credit check didn't show any adverse information and noting the repayment amounts compared to Mr F's declared income I can understand why this loan application may not have triggered a referral for manual checking. However as there was no credit history for Nationwide to rely on and Mr F had said he was self-employed which can lead to a less regular income stream, I think it would have been reasonable in this case to ask further questions about Mr F's declared income to ensure this was sufficient to support the repayments over the loan's term.

Mr F banks with Nationwide and so his statements were available to be considered. I have looked at these but in doing so I have needed to consider what I think it most likely Mr F would have declared in light of the statement information had further questions been asked. Mr F's bank statements from the three months leading up to the loan application shows he received around £300 a month in job seekers allowance. Taking just this income into account could raise concerns about the affordability of the loan – as the repayments would account for almost 50% of Mr F's income. But, as previously noted, Mr F had very limited expenses so while I think identifying Mr F's benefits payments meant further questions should be asked it doesn't necessarily mean the loan was unaffordable.

The benefit payments show Mr F was unemployed at the time and so it would have been reasonable to ask about his declaration of self-employment. The question here is whether at this point Mr F would have declared that the income he was receiving into his account from the online auction site was his from his self-employment or whether at this point it would have become clear this wasn't Mr F's income and therefore shouldn't be included in the assessment.

I cannot say for certain what would have happened had this been questioned but as Mr F wanted to get the loan and declared himself as self-employed and his income as being £2,000 a month, I think it is more likely than not that he would have said the income into the account should be used for consideration of the loan.

Had this been the case, Mr F's bank statements supported him receiving frequent payments into his account which I understand to be from the auction site business. There were also payments out of the account, but the bank statements showed Mr F was in credit with a reasonable positive balance throughout the period. The statements do also show frequent gambling transactions, but Mr F has said that the gambling was undertaken by a family member and I think it likely he would have said this if asked.

In this case, it isn't clear what Mr F would have declared had further questions been asked. But given the income into his account, the limited expenses Mr F was incurring and that his account balance didn't suggest he was in financial difficulty, on balance, I do not find I can say, based on the information provided and the information likely to have been identified through further checks, that the loan should have been considered unaffordable or that Nationwide was wrong to agree to the loan. Therefore, I do not intend to uphold this complaint.

Mr F didn't provide any new information in response to my provisional decision and Nationwide agreed with it.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

As our investigator explained before providing credit, lenders need to assess the ability of the consumer to be able to make the repayments in an affordable way over the loan term. There aren't specific checks that need to be carried out, but the regulations say these need to be reasonable and proportionate to the type and amount of credit being provided, the length of the credit being provided, the frequency of its use, the repayments and the total cost of the credit.

As no new information was provided in response to my provisional decision, my conclusions haven't changed. That is, I think it would have been reasonable in this case to have carried out further checks given the limited information received through the credit check. But, considering what I think it most likely Mr F would have declared had further questions been asked, I do not find I have enough to say that Nationwide was wrong to provide the lending.

My final decision

My final decision is that I do not uphold this ¹complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 4 September 2023.

Jane Archer
Ombudsman