DRN-4322062

The complaint

Mrs P complains that Nationwide Building Society was irresponsible in its lending to her.

What happened

Mrs P was provided with four loans by Nationwide between 2017 and 2022. She says the loan amount almost tripled and this is due to her struggling financially. She says she used the loan proceeds to pay off other debts while trying to ensure her priority payments were met. At present she says that additional to this current loan she has three credit cards with balances totalling around £6,000.

Nationwide didn't uphold Mrs P's complaint. It said its underwriting team was satisfied that she had been lent the money responsibly for each loan. It said that having looked at Mrs P's current account it didn't see a heavy reliance on the overdraft facility and wasn't able to establish the trigger points it would expect to see for financial difficulty. It said that Mrs P hadn't missed any repayments. Nationwide noted that Mrs P contacted it in September 2022 about a possible payment holiday and the options were explained but Mrs P said this wasn't suitable for her and she maintained her repayments.

Mrs P referred her complaint to this service.

Our investigator partially upheld this complaint. He thought the checks carried out before the first loan was provided were proportionate and didn't raise concerns about its affordability. He noted that the second, third and fourth loans were for higher amounts than the first and that they were in part for debt consolidation. He said that the second and fourth applications were made within a year of the previous applications. Given this he thought it would have been reasonable to verify Mrs P's financial circumstances before lending. He said that had further checks been carried out Nationwide would have realised that loan four shouldn't have been provided.

Nationwide didn't agree with our investigator's view. It said that reasonable and proportionate checks were carried out before it lent to Mrs P including verifying her income and modelling her expenses based on third party data. It said its checks showed the loans were affordable for Mrs P.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit, as well as the borrower's individual circumstances.

Mrs P was provided with four loans as set out below.

Date	Loan Amount	Monthly repayment	Loan term (months)
April 2017	£5,000	£148.53	36
April 2018	£10,051	£223.16	48
March 2021	£8,071	£178.16	48
January 2022	£14,456	£319.09	48

Before providing the loans, Nationwide has said that credit checks were carried out, Mrs P's declared income was verified with a credit reference agency and her expenses modelled using an external data source. Each loan was used in part to repay the previous loan.

Loan one

When Mrs P applied for the first loan, she declared a monthly income of £2,150 and rent of £500. Nationwide has said that it verifies the declared income through a credit reference agency and that this verification check didn't raise concerns.

Nationwide said it used a combination of information provided by Mrs P and the credit reference agencies to establish her credit commitments. These were recorded as £45 a month for credit cards and no outstanding loan payments. The loan was noted to be for debt consolidation which would suggest Mrs P wished to reduce her credit card exposure. Nationwide used an external data source to model Mrs P's expenses.

As this was Mrs P's first loan with Nationwide and noting the repayment amounts compared to her income, I find the checks carried out were reasonable and proportionate. As these suggested the loan repayments were affordable for Mrs P I do not find I can say Nationwide was wrong to provide this loan.

Loan two

Loan two was provided a year after loan one and was used in part to repay loan one. This loan was for a larger amount than loan one and had a longer term. Mrs P's declared monthly income was £2,100. The monthly income was verified, and Nationwide said this didn't raise concerns. I have also looked through the other information provided, and this supports the declared income amount.

Nationwide carried out a credit check and this showed that Mrs P's outstanding debts had increased since her previous application but there was no evidence that Mrs P was struggling to meet her repayments on her commitments. Mrs P said she was paying £570 a month for mortgage/rent, her other credit commitments (excluding loan one which was being repaid by loan two) were around £150 a month and her monthly living expenses modelled using external data were around £566. Given this was Mrs P's second loan and noting the increase in amount borrowed, I think it would have been reasonable to have asked Mrs P about her actual expenses rather than relying on an estimate to ensure the lending was affordable.

Mrs P has provided copies of her bank statements from the time. While I do not find that Nationwide had to request these, I have looked through the statements to understand what would likely have been identified had further questions about Mrs P's expenses been asked. Having done this I can see that Mrs P's account was in credit and not showing signs that she was struggling financially. Therefore, I do not find I can say that Nationwide did anything wrong by providing loan two.

Loan three

Mrs P took out loan three just under three years after loan two. She said the purpose of the loan was debt consolidation and part of the proceeds were used to repay her previous loan. The loan amount for loan three was less than loan two and so the monthly repayments were lower. However, taking on this new loan with a term of 48 months meant Mrs P had extended her period of indebtedness.

As with the previous loans, Nationwide gathered information about Mrs P's monthly income and verified this. Nationwide said this verification didn't raise concerns. I have also looked through the other information provided, and this supports the declared income amount of £1,600.

Mrs P's monthly income had decreased at the time of her loan three application. Her payment for mortgage / rent had also decreased. Mrs P's outstanding loans had increased substantially and totalled around 100% of her annual income. I think this should have raised concerns and while I note loan three was intended to be used for debt consolidation, I think it would have been reasonable to have carried out further checks to ensure the lending was affordable.

This was Mrs P's third loan and the second time it had been suggested the loan would be used for debt consolidation which raises concerns that Mrs P might be struggling to take control of her debts. That said, Mrs P has provided a copy of her credit file dated April 2023 and this doesn't suggest that Mrs P was struggling to manage her credit commitments. I have looked through Mrs P's bank statements for the period leading up to the loan and having done so I do not find that I can say that further checks would have shown the loan to have been unaffordable. Therefore, while this was the third loan provided, as it was for a lower amount than the previous loan and there was a reasonable break in between loan two and loan three, I do not find that I have enough evidence to say that Nationwide did anything wrong by providing loan three.

Loan four

Mrs P applied for loan four within a year of loan three. Loan four was for a much larger amount and was again said to be used for debt consolidation. Given Mrs P had taken out previous loans for this purpose and was still needing to take on new lending for consolidation reasons, I think this should have raised concerns that Mrs P was struggling to repay her debts.

Mrs P's outstanding debt had increased since her application for loan three and this loan four was for a much larger amount with monthly repayments of around £319. Mrs P's declared income was verified, and I do not find that further checks would have raised concerns about this. I have looked through Mrs P's bank statements and I do not find I have enough to say further questions about her expenses would necessarily have shown the loan to have been unaffordable.

However, I have also considered what Nationwide knew about Mrs P's overall financial situation. Mrs P's total debts had increased substantially since she took out her first loan with Nationwide and her outstanding balances for loans and credit cards had both increased between Mrs P's loan three application in March 2021 and her loan four application nine months later. Added to Mrs P's increasing indebtedness was the fact she had noted debt consolidation for her previous loans, but the evidence suggests that she was increasing her debts rather than clearing these. I find this should have raised concerns about Mrs P's pattern of borrowing and that she was becoming increasingly dependent on debt. And while I appreciate that the loan was said to be for debt consolidation, given Nationwide's checks didn't suggest this had happened following the previous loans I think Nationwide should have considered this loan as being more likely than not used as further credit rather than a means of reducing her debt.

Given the above I think that had a thorough assessment of Mrs P's financial circumstances taken place before loan four was provided, this would have raised concerns that the lending wouldn't be affordable for Mrs P. Therefore, I do not find that this loan should have been provided.

Putting things right

Where a business has done something wrong, our service aims to put the consumer back in the position they would've been in had the incident not occurred. However, in cases where a business has lent irresponsibly, this isn't entirely possible – as the lending provided cannot be undone.

In this case, I think it's fair that Mrs P should only have to repay the money she borrowed in regard to loan four. With that in mind, I find Nationwide should refund all of the interest and charges paid toward repaying loan four.

To settle this complaint, Nationwide should:

- Add up the total amount of money Mrs P received as a result of having been given loan four. The repayments Mrs P made should be deducted from this amount. Any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement, if applicable).

- Remove any negative information recorded on Mrs P's credit file in regard to loan four (to the extent applicable).

*HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Mrs P a certificate showing how much tax it's taken off, if asked for one.

My final decision

My final decision is that I uphold this complaint in regard to loan four. Nationwide Building Society should take the actions set out above in settlement of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 19 October 2023.

Jane Archer
Ombudsman