

The complaint

Mr J says Nationwide Building Society irresponsibly lent to him.

What happened

Mr J took out a loan for £15,000 over 52 months from Nationwide in January 2021. The monthly repayments were £328.51 and the total repayable was £17,082.52. He had previously taken out a loan in 2018 with Nationwide that he had repaid early in January 2020.

Mr J says he took out this loan after a change in employment circumstances and his stated income was not consistent, more wishful thinking of what it might be going forward. He says Nationwide ought to have carried out better checks - trying to repay the loan has caused him significant stress.

Nationwide says its checks were proportionate and they showed the loan was affordable.

Our investigator upheld Mr J's complaint. He said the checks were not proportionate and had Nationwide completed better checks it ought to have realised Mr J could not afford the loan.

Nationwide disagreed with this assessment and asked for an ombudsman's review. It said it verified Mr J's declared income and after taking into account his essential costs he would be left with £170 disposable income after repaying this loan. He had no other debt. So it was affordable. It said given the volume of loan applications it processes it would not be possible to undertake manual checks on each application, and there was no reason to manually intervene in the lending decision here.

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 J's complaint.

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 J 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 and Mr J's income and expenditure.

Certain factors might point to the fact that Nationwide should fairly and reasonably have done more to establish that any lending was sustainable for Mr J. These factors might include Mr J's income, how much the repayments were, the frequency of the borrowing and how long Mr J had been indebted.

Nationwide says that it carried out all relevant checks when making its decision and the loan was deemed to be affordable for Mr J. I have reviewed these checks. Mr J declared he was self-employed with net monthly income of £1,000 and living with his parents. Using national statistics Nationwide calculated that Mr J had £499.70 of monthly disposable income after deducting his living costs and an allowance for housing. A credit check showed Mr J had no outstanding credit elsewhere and there was no adverse information on his credit file. So Nationwide concluded Mr J would have £170 monthly disposable income after taking on this loan, and it was therefore affordable.

I don't think these checks were proportionate given the value and term of the loan, and given that Mr J's income was relatively low and he was no longer salaried. And the repayment for this loan were over 30% of his income. There would most likely be more uncertainty and inconsistency now he was self-employed and I think Nationwide needed to understand that. Nationwide itself has said in its submission to this service that *'the only thing that stood out was that in the original app the member was employed with a good income and in the second app, they were self-employed with a lower income'* although it does conclude it correctly considered Mr J's income. Overall, in the circumstances, I think Nationwide needed to carry out a fuller financial review before lending.

I appreciate that Nationwide's lending decision was automated and it deals with a high volume of applications, but this does not mean that obvious available information should be ignored or that further checks should not be done when needed.

Nationwide already had one source of data about Mr J's financial circumstances – its own internal records. Mr J had an existing relationship with Nationwide as he had a current account at the society. This information was easily accessible and clearly relevant to his loan application, and I think that Nationwide should have taken this into account. I think had it reviewed the current account it would have been concerned there was no evidence of the declared monthly income of £1,000, or even of the consistent receipt of a lower figure.

Nationwide could fairly have concluded the account wasn't Mr J's primary account, but it then still needed to ask for evidence of Mr J's income. Had it done so it would have learnt that he did not earn £1,000 a month and as a result did not have the disposable income needed to make this loan sustainably affordable.

It follows I think Nationwide was wrong to lend to Mr J.

Putting things right

In this case, I think it's right that Mr J should have to repay the capital he borrowed as he had the use of that money. But it is unfair that he should pay interest and charges on a loan that should not have been given.

So Nationwide must:

Add up the total amount of money Mr J received as a result of having been given the loan. The repayments Mr J made should be deducted from this amount.

a) If this results in Mr J having paid more than he received, any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement). Nationwide should also remove all adverse information regarding this loan from Mr J's credit file.

b) If any capital balance remains outstanding, then Nationwide should attempt to arrange an affordable and suitable payment plan with Mr J. Once Mr J has cleared the balance, any

adverse information in relation to this loan should be removed from his credit file.

As Nationwide has sold the debt to a third party, it should attempt to buy back the debt from the third party or if this is not possible it must work with the new owner to achieve the same outcome for Mr J as the steps set out above.

*HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Mr J a certificate showing how much tax it's 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 am upholding Mr J's complaint. Nationwide Building Society must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 26 December 2023.

Rebecca Connelley
Ombudsman