

The complaint

Mr B complains that Nationwide Building Society lent irresponsibly when it approved various loans.

What happened

In February 2016 Mr B applied for a £20,000 loan over 70 months with Nationwide to purchase a car. Nationwide says Mr B gave an income of £2,500 a month and used a household outgoings figure of £610 plus £88 for council tax and £500 for mortgage payments. Nationwide says it carried out a credit search and found Mr B had repayments of £290 a month that wouldn't be impacted by the loan application. Nationwide says it calculated Mr B had £911 disposable income which showed the new loan, with a payment of £380, was affordable. The loan was approved.

In May 2017 Mr B applied for a second loan, this time for £2,000 over 44 months. Nationwide says Mr B declared an income of £2,400 a month in this application and that it used a household expenditure figure of £595 plus £85 council tax a month. Nationwide says it used a mortgage payment of £400 a month plus credit card minimum payments of £258 and existing loan payments of £612. Nationwide calculated Mr B had around £481 available which was sufficient to cover his new loan payments of £58. The loan was approved.

In April 2018 Mr B applied for a top up loan of £12,150 over 70 months. Nationwide says Mr B gave an income figure of £2,250 a month and that it used a figure of £606 for regular outgoings plus £114 for council tax. Nationwide says it used mortgage costs of £300 a month, credit card payments of £430 a month and existing loan payments of £376 a month. Nationwide says Mr B had surplus income of £422.66 which was sufficient to cover his new loan payment of £219.26. The loan was approved.

In January 2019 Mr B applied for another top up loan, this time for £1,500 over 84 months. Nationwide recorded an income figure of £2,500 and used a regular outgoings figure of £643 plus £118 for council tax. Nationwide found credit card payments of £200 plus existing loan payments of £734. Nationwide says that left Mr B with £448 as disposable income which was sufficient to cover his increased loan payment of £30.

Last year, Mr B complained that Nationwide had lent irresponsibly and it issued a final response. Nationwide said it had carried out reasonable checks each time Mr B applied before deciding whether to lend and that the loans were all affordable based on what it found. Nationwide added Mr B had settled some of the loans early and didn't agree it had lent irresponsibly.

Mr B referred his complaint to this service and it was passed to an investigator. In its file submission, Nationwide said Mr B had waited too long to refer his complaint about the February 2016 loan application to us which meant we couldn't consider the merits. Another ombudsman went on to issue a decision that confirmed Mr B's complaint about the February 2016 (and later applications) fell within the remit of the Financial Ombudsman Service. The case was passed back to the investigator to review.

The investigator upheld Mr B's complaint and said that Nationwide had failed to provide evidence to support the lending decisions it made. The investigator reviewed the case based on the evidence on file, in line with our remit. The investigator wasn't persuaded that Nationwide had shown it lent responsibly or carried out proportionate checks before approving Mr B's loan applications and upheld his complaint.

On 6 October 2023 Nationwide requested an extension to 18 October 2023 in order to reply. Despite a further chase on 20 October 2023 we didn't hear back from Nationwide. On 31 October 2023 the investigator contacted both parties to say Mr B's case would be passed to an ombudsman as Nationwide had failed to respond and gave a final response date of 14 November 2023. On 8 November 2023 Nationwide said it would respond by 10 November 2023. We didn't hear back from Nationwide.

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.

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.

In its initial submission, Nationwide gave us some information about the figures it used when assessing Mr B's loan applications. Whilst the information is reasonably detailed, it wasn't backed up by any evidence to show what Nationwide found during the applications Mr B made or how the applications were scored by its systems. I've looked at the information on file, including a copy of Mr B's credit file and his bank statements for the periods surrounding his applications.

Mr B's first application in February 2016 was for £20,000, a substantial sum. I haven't been persuaded that Nationwide's submissions have provided clear grounds to verify the checks it completed were proportionate. But Mr B hasn't submitted any statements to cover the period either. Whilst I understand Mr B is unhappy with the loan that was approved, the figures provided by Nationwide indicate the repayments were affordable. On balance, I haven't been persuaded the February 2016 loan was irresponsibly approved by Nationwide.

Mr B went back to Nationwide for a further £2,000 in September 2017. At this point, Mr B's income figure had dropped to £2,400. I note Nationwide used lower figures for Mr B's mortgage costs and regular outgoings than in the previous application. As Nationwide hasn't supplied evidence of its lending decisions, it's not clear why. But by this time, Mr B's regular payments for credit had increased as he owed around £45,000 in unsecured debt. That meant Mr B was paying around £790 a month to service loan repayments plus around £475 for credit card payments. Added to the regular outgoings of £595 and mortgage costs of £400 Nationwide used, that only left around £60 a month after Mr B's outgoings were factored. I'm not persuaded that was a sustainable position for Mr B in the long term. I agree with the investigator that Nationwide would most likely have declined Mr B's loan application in September 2017 if had taken a closer look at his circumstances and obtained further evidence.

By the time Mr B applied again in April 2018 and January 2019 I think it should've been reasonably clear to Nationwide he'd become reliant on credit to make ends meet. In the circumstances, I think Nationwide should've carried out better checks, like verifying Mr B's income or reviewing his bank statements. Mr B's bank statements from the period show that he was gambling a substantial amount each month. In the circumstances, if Nationwide had carried out more comprehensive checks, I think it would've declined to proceed with the loan applications Mr B made in April 2018 and January 2019. Taking all the available information into account, I'm satisfied Nationwide lent irresponsibly when it approved the loans in April 2018 and January 2019.

As I haven't seen evidence that supports Nationwide carried out reasonable and proportionate checks when assessing the loan applications Mr B made in May 2017, April 2018 and January 2019 and the information available indicates it lent irresponsibly, I'm upholding his complaint and directing it to refund all interest, fees and charges applied. I'm not telling Nationwide to take any further action in relation to the loan approved in February 2016.

My final decision

My decision is that I uphold Mr B's complaint and direct Nationwide Building Society to settle as follows:

- Add the total amount of money Mr B received as a result of the loans approved in May 2017, April 2018 and January 2019. The repayments Mr B made to these loans should be deducted from this amount.
- If this results in Mr B having paid more than he received then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement.) †

Or

- If any capital balance remains outstanding, Nationwide should attempt to arrange an affordable/suitable repayment plan with Mr B
- Once the balance has been cleared, remove any adverse information recorded on Mr B's credit file in relation to the May 2017, April 2018 and January 2019 loans

† HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Mr B a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 13 December 2023.

Marco Manente
Ombudsman