DRN-4541542

The complaint

Mr S and Ms S complain that Nationwide Building Society was irresponsible to lend to them.

What happened

Mr S and Ms S were approved for the following loan from Nationwide in March 2021:

Loan	Date	Amount	Term	Repayment	Due
1	4 Mar 2021	£10,000	84m	£180.46	4 Mar 2028

Ms S says that if Nationwide had carried out proportionate checks it would have seen they already had several loans and credit cards, including short-term loans. She says their bank statements showed a gambling addiction and that the repayments were unaffordable. Ms S says they are now in a debt management plan and her mental health is suffering.

Nationwide says there was no evidence of gambling in the three months prior to the lending. It says there was one open loan, but no open or settled short-term loans. Nationwide adds that it could also see a credit card debt, but that Mr S and Ms S said the new loan was going to be used to repay that.

Our adjudicator did not recommend the complaint should be upheld. He was satisfied Nationwide's checks went far enough and that there was nothing in the information it gathered that meant it shouldn't have approved the loan.

Ms S responded to say, in summary, that her statement clearly showed payments to a short term loan company and Nationwide should have seen many historical gambling transactions even if there were fewer evident in the lead up to the loan application.

Provisional findings

I issued a provisional decision to Mr S and Ms S and to Nationwide on 7 December 2023.

I've summarised my findings below:

- I saw evidence to show that Nationwide carried out checks that included information about income, mortgage payments and existing credit;
- However, I couldn't see it had used all the information it had available and considered it should have also looked at Mr S and Ms S's bank statements to understand their financial circumstances more fully because:
    - The loan was for a period of seven years and Nationwide needed to be sure the repayments were sustainable for that period;

    - Bank statements would more accurately verify Mr S and Ms S's income;
    - Nationwide's calculations showed Mr S and Ms S would be committed to spending 36% of their income on credit, including the new loan, and consolidating £4,000;
    - Nationwide used an assumed household expenditure figure of £1,080, rather than the outgoings shown on the bank statements;
    - I couldn't see that the figure for revolving credit (excluding credit cards) had been taken into account in the calculations;
- So, I had a look at Mr S and Ms S's bank statements, and they showed:
    - Mr S and Ms S's monthly income averaged around £3,800;
    - Mortgage and loan payments were about £1,760;
    - Two of those loans, totalling £8,500, were taken out in August 2020;
    - Other regular payments came to around £1,000 per month;
    - There was a minimum monthly commitment of £600 on five credit cards;
    - A short-term high cost revolving credit facility cost Mr S and Ms S around £60;
    - In the months before the lending, there was moderate spending on gambling – around half a dozen transactions per month totalling less than £200. In February 2021, this escalated to 25 transactions with a spend of over £500.
- Although Mr S and Ms S would have had a small disposable income after making the loan repayment, I found it was irresponsible to have approved the loan because:
    - It left Mr S and Ms S with only around £200 per month after their regular expenditure and I thought this was unlikely to be sustainable for seven years;
    - Mr S and Ms S were committing almost 50% of their income to credit repayments before consolidation;
    - Although I acknowledged that Ms S said she was going to use £4,000 to repay some credit card debt, this was only likely to be a short term saving given the limited disposable income;
    - Of the £8,500 that Mr S and Ms S borrowed in August 2020:
        - £6,000 was used to repay credit;
        - The remainder was spent on gambling transactions;
    - The regular use of the high cost revolving credit facility was an indication that Mr S and Ms S were already struggling financially;
    - The nature of the gambling transactions in February 2021 appeared to be symptomatic of an escalating gambling addiction and represented a significant proportion of Mr S and Ms S's income;

In summary, I didn't find the repayments were likely to have been sustainable for Mr S and Ms S and I considered it was irresponsible to lend to them given a clear pattern of gambling. I also noted that, although most of the loan was used to repay debt, I could see that almost £2,000 was quickly spent on gambling, with 35 transactions in the week following the loan.

Ms S responded to say that she agreed with the provisional decision and that she had no further information to provide.

Nationwide responded to say, in summary, that it had taken into account every reasonably foreseeable cost, including an estimate for household expenditure based on the Office of National Statistics (ONS) data. It says the loan was affordable on that basis and the only evidence it could see of gambling was a maximum of 2% of the household income.

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've considered the response from Nationwide and have already explained my rationale for using Mr and Ms S's bank statements, rather than, for example, the ONS-based estimate. I have also now clarified to Nationwide that it has not considered the regular payments through an online payment system – Ms S has confirmed these were gambling transactions.

As neither party provided any additional information that affects the provisional decision, I see no reason to depart from it.

My final decision

My decision is that I uphold this complaint. Nationwide Building Society should:

- Add up the total amount of money Mr S and Ms S received as a result of the loan. The repayments Mr S and Ms S made should be deducted from this amount;
    - If this results in Mr S and Ms S having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date of the overpayments until the settlement date)*. Nationwide should remove adverse information about the loan from both their credit files;
    - If any capital balance remains outstanding, then Nationwide should attempt to arrange an affordable and suitable repayment plan with Mr S and Ms S. Once Mr S and Ms S have cleared the balance, any adverse information in relation to the loan should be removed from their credit files.

*HM Revenue & Customs requires Nationwide to deduct tax from this interest. Nationwide should give Mr S and Ms S a certificate showing how much tax it's deducted if requested.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Ms S to accept or reject my decision before 13 February 2024.
Amanda Williams
Ombudsman