

The complaint

Mr R complained that Nationwide Building Society (“Nationwide”) irresponsibly granted an overdraft in August 2022 that he couldn’t afford to repay.

What happened

In August 2022, Mr R was granted an overdraft of £2,000 on his current account.

Mr R thinks that Nationwide didn’t carry out the appropriate checks before granting the overdraft, and that it shouldn’t have granted it. He told us his monthly income at the time was about £1,500, and this was paid into a second current account which also had a £2,000 overdraft limit in place. He had other lending commitments, and also had gambling problems. Mr R wants Nationwide to write off the overdraft.

He complained about this to Nationwide. But Nationwide said that Mr R had met its eligibility conditions and had no adverse information on his credit record, and it had taken account of Mr R’s other credit commitments in reaching its decision. So it said that it would not uphold his complaint.

Mr R then brought his complaint to this service. Our investigator looked into it, and thought the complaint should be upheld. Nationwide didn’t agree, and asked for this complaint to be reviewed by an ombudsman.

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, and I’ve taken this into account here.

I’ve decided to uphold Mr R’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as 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. So I’ve considered whether Nationwide completed reasonable and proportionate checks to satisfy itself that Mr R would be able to manage the overdraft in a sustainable way.

Nationwide sent in copies of Mr R’s current account statements, along with computer records of Mr R’s account and his complaint, and information about its credit checks. Mr R provided copies of his separate current account with another bank, and his credit file.

Nationwide said it completed an affordability check and looked at information from credit reference agencies before agreeing the overdraft. It didn’t give us much detail about the

checks, but did say that it had taken into account the amount of unsecured debt shown on Mr R's credit records – this was £23,118. Nationwide also said that its checks also showed no record of any missed repayments or defaults, and no public records such as an IVA or bankruptcy. It didn't say how it had verified Mr R's salary.

After our investigator issued his view, Nationwide provided further details of its checks. It said that Mr R had declared his salary before tax to be £37,500, which Nationwide then estimated to give a net monthly income of £2,340. It then estimated his payments on his unsecured debt to be £1,180, and his living expenses to be £673. Mr R had said that he was living with his family so had no rent or mortgage payments, so this left a disposable income of £486 each month.

Nationwide also made a number of points regarding its assessment process. In summary, it said that it operated a sophisticated automated application checking system which verified an applicant's income and credit commitments and reviewed any adverse information on credit reference records. It didn't consider that the information it reviewed for Mr R was enough to trigger a more detailed check of his circumstances.

Having looked at all of the information both parties sent in, I am not satisfied that Nationwide's checks were reasonable and proportionate. I say this for the following reasons.

Mr R's bank statements show that his monthly income after tax averaged just under £2,200 in the three months leading up to the overdraft being granted. I don't have any information about why there is a discrepancy between this figure and the amount Nationwide took into account.

The bank statements also show a number of credit commitments – I can see eight direct debit payments that appear to be related to loans, and Mr R seems to have had two credit cards. One of these loans (for £5,000) had been taken out in May 2022, and Nationwide itself had granted a large personal loan some ten months earlier. I can also see that Mr R took out a further loan of £8,000 towards the end of July 2022, although I accept that as there is usually a time lag in credit reference agency records being updated, this may not have been visible to Nationwide when it carried out its checks. There were two large credits into Mr R's other current account in June and July 2022, which may have been loans, but as they came from a credit union I can't be certain whether they were, or whether they represented the withdrawal of savings. Mr R's Nationwide current account shows that, up until the overdraft was granted, the balance was usually zero as the transactions were transfers in and then immediate transfers out to other accounts.

I note that Nationwide said it had used an estimated payment of £1,180 in relation to Mr R's unsecured debts. However, Mr R's June bank statement, for example, shows payments of just under £1,500 in loan-related direct debits, and there would've been further payments towards his credit card balances. So Mr R's actual disposable income seems to have been much lower than that estimated by Nationwide.

I would expect all of Mr R's commitments (other than possibly the July loan) to have been shown on his credit history when Nationwide carried out its checks. And I think the number of credit commitments, taken together with the amount of unsecured credit relative to his income, suggested that Mr R was – or was becoming - over-reliant on credit. So I think this should reasonably have prompted Nationwide to make further enquiries about Mr R's income and outgoings before granting even more credit.

I think it would've been clear that Mr R's Nationwide current account was not his only account, as his salary wasn't paid into it and the transactions were mainly transfers in and out. So I think Nationwide could reasonably have requested details of Mr R's other account.

Had it done so, I think Nationwide would have seen the loan of £8,000 that Mr R had taken out in July 2022, and also that there were numerous gambling transactions taking place, involving quite large sums of money. Mr R's other account was also starting to show a more frequent overdraft position – it appears that he had an overdraft facility on his other account, although it's not clear when this was granted. From all this, I think Nationwide would have found that Mr R was overly reliant on credit and was dealing with gambling issues, so managing and repaying the new overdraft was unlikely to be affordable or sustainable. So I don't think Nationwide acted fairly in granting further credit and therefore I uphold Mr R's complaint.

Putting things right

I think it's fair and reasonable for Mr R to repay the overdraft because he has had the benefit of that money. But he has paid interest and charges on an overdraft that shouldn't have been provided to him. Nationwide must put this right.

It should:

- Re-work Mr R's current overdraft balance so that all interest, fees, and charges applied to it from 12 August 2022 onwards are removed.
- If an outstanding balance remains on the overdraft once these adjustments have been made, Nationwide should contact Mr R to arrange a suitable repayment plan. Once Mr R has cleared the outstanding balance, any adverse information recorded after 12 August 2022 in relation to the overdraft should be removed from his credit file.
- Or, if the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and refunded to Mr R, along with 8% simple interest* on the overpayments from the date they were made until the date of settlement. If no outstanding balance remains after all adjustments have been made, Nationwide should remove any adverse information relating to the overdraft from Mr R's credit file.

*HM Revenue & Customs requires Nationwide to deduct tax from any award of interest. It must give Mr R a certificate showing how much tax has been 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

For the reasons set out above, I have decided to uphold Mr R's complaint. Nationwide Building Society should compensate Mr R as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 26 April 2024.

Jan Ferrari
Ombudsman