

The complaint

Mr M has complained that Nationwide Building Society failed to conduct appropriate assessments of Mr M's overdraft usage and continued applying charges to his overdraft when he was in financial difficulty.

Mr M is represented by a third party but for ease of reference I have referred to Mr M throughout this decision.

What happened

Mr M was provided with a £200 overdraft in October 2018. This was increased to £250 in November 2018 and then on further occasions until it was increased to £2,000 in December 2019. Mr M says that he has remained at the upper limit of his overdraft for a prolonged period and has incurred significant interest as a result. He says that if Nationwide had been properly monitoring his account it would have been clear that the overdraft wasn't being used for short-term /emergency spending but had become hardcore debt and Mr M was reliant on it for his everyday spending.

Nationwide said that all the increases in the overdraft limit were subject to the appropriate checks, including affordability.

Our investigator thought that the checks carried out before the overdraft increases to £2,000 were applied were proportionate and didn't raise concerns about the affordability of the lending. However, they noted Mr M's ongoing usage of the overdraft and thought that Nationwide acted unfairly when it continued charging overdraft fees from 30 December 2021. They said that by this point, Mr M hadn't seen or maintained a credit balance for an extended period of time. So, they thought that Nationwide should have realised that Mr M wasn't using his overdraft as intended and it shouldn't have continued offering it on the same terms. Therefore, they upheld this complaint regarding the interest and charges applied from December 2021.

Nationwide didn't agree with our investigator's view. It noted the global pandemic in March 2020 and the impact this had and that at that time it was industry practice not to remove overdraft facilities. It said while there were improvements being seen in December 2021 it still wasn't clear when the impact of the pandemic would end. It said the regulations said that the removal of an overdraft shouldn't be considered if it would result in financial harm to the customer and it didn't think this had been taken into account. It explained that while it had paused the removal of overdrafts at the time it had a 'Repeat use' process and encouraged customers in this situation to contact its collections team. It said that if Mr M had done this it could have set up a repayment plan and waived interest, but Mr M didn't get in touch. It didn't accept that it should have stopped charging interest on Mr M's overdraft and provided him with an open-ended interest free facility.

Mr M said that he was out of work in 2019 which was why his overdraft was increased on several occasions. He said that Nationwide should have realised at that time he was struggling, and he asked why his complaint had only been upheld from 2021.

As a resolution to this complaint hasn't been agreed, it has been passed to me, an ombudsman to issue a decision.

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.

Nationwide will be familiar with all the rules, regulations and good industry practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don't consider it necessary to set all of this out in this decision.

Mr M was provided with a £200 overdraft in October 2018. This was increased several times with the final increase being in December 2019 when an overdraft limit of £2,000 was applied. I haven't seen evidence of the checks carried out in October 2018 or before the early limit increases were applied. But noting the overdraft limit was only £350 up to November 2019, and I haven't evidence to show that checks at that time would have suggested this to be unaffordable I do not find I can say Nationwide was wrong to provide this lending.

Mr M has said he wasn't working in 2019 and that was why he increased his overdraft limit. I have looked at the records provided and can see Mr M's overdraft limit was increased to £500 on 23 November 2019, to £1,000 on 27 November 2019, to £1,500 on 2 December 2019 and to £2,000 on 4 December 2019. This is four increases in two weeks and resulted in a significant overall limit increase. I have therefore looked at the information available to see whether this should have been considered affordable for Mr M at that time. Having done so it appears that Mr M was receiving income from different sources in the months leading up to the overdraft limit increases. His statements show transfers to and from other accounts and several cash withdrawals which makes it difficult to understand fully Mr M's income and expenses. But I cannot see evidence of other credit commitments and the copy of his credit file provided doesn't show any issues from the time. So, based on the information I have seen, I do not find I have enough to say that Mr M's accounts showed him to be struggling financially such that the overdraft limit increases shouldn't have been applied.

The rules, guidance and good industry practice in place typically require a financial institution to review an account on an ongoing basis. And it is generally accepted that a customer's overdraft usage should be reviewed on an annual basis.

I have looked at Mr M's bank statements for the months leading up to December 2020. I can see that he was still receiving an income at this time. In October 2020, he cleared his overdraft balance by making a transfer into his account, but I note this money was then used to make a substantial payment. This resulted in him returning to his overdraft which was at or over the limit for the majority of the month. Mr M's account remained around the overdraft limit in November and December 2020. However, there was still income coming into the account and transfers in. At this time the income was often withdrawn in cash shortly after it was received. I think this does raise concerns about how Mr M was using his overdraft. But Mr M was still earning income at the time that could have cleared the overdraft and it isn't clear how this was being spent given the transfers and cash withdrawals. I note Nationwide's comments about the pandemic and the approach taken at that time and based on what I have seen I think at this point it would have been reasonable to keep monitoring Mr M's account.

However, by December 2021, I think it was evident that Mr M's overdraft had become hardcore borrowing. By this time his account had been at or above the overdraft limit for an

extended period and Mr M didn't appear to be getting income from the sources he had previously received income from. He was receiving benefits and I think it should have been clear that his overdraft had become unsustainable and that continuing to provide it was likely to cause significant adverse consequences. I note the comments about the letters Nationwide had sent to Mr M and that he hadn't got in touch, but I do not find this means that the overdraft should have been continued on the same terms. Because of this I do not find that Nationwide acted fairly and reasonably and I uphold this complaint regarding interest and associated fees and charges applied to Mr M's overdraft from December 2021.

Putting things right

Nationwide should:

- Re-work Mr M's current overdraft balance so that all interest, fees and charges applied to it from 30 December 2021 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Nationwide should contact Mr M to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr M's credit file, it should backdate this to 30 December 2021.

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 returned to Mr M along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement*. If no outstanding balance remains after all adjustments have been made, then Nationwide should remove any adverse information from Mr M's credit file.

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

My final decision

My final decision is that Nationwide Building Society should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 22 April 2024.

Jane Archer
Ombudsman