

The complaint

Miss M complains that Nationwide Building Society (“Nationwide”) irresponsibly provided her with a credit card and increased her credit limit.

What happened

Nationwide provided Miss M with a credit card in February 2020 with a limit of £3,000. Her credit limit was increased to £3,500 in May 2020 and then to £4,000 in July 2021.

Miss M complained to Nationwide in August 2023. In summary, Miss M said the repayments were unaffordable due to other financial commitments and a low income. She said had Nationwide checked her credit file, it would have seen other accounts she owed money on and a history of missed payments. Miss M says she’s been unable to afford to feed or buy items for her children and has borrowed money from her parents. She says she re-mortgaged her house to pay off some of her credit but then utilised the credit facilities again. Miss M also says the situation has affected her mental health.

In its final response letter, Nationwide didn’t uphold Miss M’s complaint because it didn’t agree the lending was irresponsible. In summary, it said Miss M met its risk criteria at the time of the lending decisions. Nationwide said consistent high income was deposited into her bank accounts and Miss M had regular non-essential spending. And therefore, the credit application and limit increases were affordable. Miss M remained unhappy and brought her complaint to this service.

To support its position, Nationwide provided our service with Miss M’s credit application data, her credit file information from the time of the initial lending decision, and the information it used to provide the credit limit increases.

Our Investigator considered both what Miss M and Nationwide had said. They said for the initial lending in February 2020, Nationwide didn’t carry out proportionate checks, mainly due to Miss M utilising an overdraft and being provided with a loan from Nationwide for £10,000 two months prior. Instead of using modelled data to check Miss M’s income and expenditure, our Investigator said Nationwide ought to have checked Miss M’s statements. And had it done so, it would have seen Miss M was struggling with her finances and likely couldn’t make sustainable repayments on her credit card. Ultimately, our Investigator concluded Nationwide shouldn’t have provided this credit card to Miss M and therefore, it shouldn’t have increased her limits either.

Miss M didn’t dispute the Investigator’s findings, but Nationwide did and made a number of points, which I’ll summarise here. In addition to reiterating some of its points, Nationwide said:

- A full creditworthiness and affordability assessment was conducted which included looking at Miss M’s performance on other Nationwide products as well as utilising external credit bureau information. It found no return items such as returned direct debits or arrears on her Nationwide current accounts.

- Its automatic application checking system didn't find anything unusual about Miss M's application – had that happened, it would have triggered a review of the application in detail and Nationwide may have requested bank statements at that stage. Nationwide felt it wasn't proportionate to think it'd scrutinise Miss M's bank statements without any indicators that she was in financial difficulty.
- It's up to Miss M to make an informed decision about how to use her credit card and even if she'd utilised the entire facility, the monthly repayment would have been around £150 which represents 0.49% of her annual income.
- Having a personal loan does not indicate financial difficulty and repayments for the loan were factored into its decision to provide Miss M with a credit card. But – the fact the loan was taken out for consolidation wouldn't have been accessible for the credit card application. And the utilisation of Miss M's overdraft leading up to the lending didn't form part of its decision on whether to lend.
- Miss M continued to gain credit elsewhere after being provided with the credit card which would have impacted her ability to make payments however Nationwide cannot anticipate further credit being granted.

Our Investigator said they felt the information available during Nationwide's checks ought to have triggered a more in-depth evaluation of Miss M's circumstances. Had additional checks been carried out, our Investigator said Nationwide would have discovered the purpose of the recent loan was debt consolidation. And, whilst having a personal loan doesn't necessarily indicate financial difficulties, further analysis was needed to understand why more credit was needed in close succession.

In response, Nationwide reiterated some of its previous points and also explained although its checks didn't pick up the reasons for taking out another product (i.e. the loan for debt consolidation), it would pick up if there were any missed payments. And the same applies to an overdraft facility. But how an overdraft is utilised is not a metric used for deciding whether to provide a credit card.

Because an agreement couldn't be reached, the complaint has been passed to me to decide on the matter.

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 explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss M's complaint.

Having carefully considered everything provided, I'm upholding Miss M's complaint – and I'll explain why.

Nationwide needed to make sure it didn't lend irresponsibly. This means it needed to carry out proportionate checks to understand whether Miss M could afford to repay before providing the credit card and increasing the limit. Generally, it might be reasonable and proportionate for a lender's checks to be less thorough (in terms of how much information it gathers and what it does to verify it) in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show it didn't continue to lend to its customer irresponsibly.

When Miss M was provided with the credit card in February 2020, with a limit of £3,000, Nationwide was required to understand whether Miss M could sustainably repay the full amount it was prepared to lend within a reasonable period of time.

When initially providing Miss M with the credit card, Nationwide's checks showed:

- Miss M declared on her application that she was employed full-time, earning £30,400 per year. I haven't seen a copy of the application however Miss M hasn't disputed this information.
- Using modelled household expenses and bureau data to estimate Miss M's outgoings, including monthly credit commitments, Miss M would have had around £1,000 per month disposable income.
- Miss M didn't have any adverse data recorded on her credit report such as defaults or County Court Judgments and payments on all of her active accounts were up to date.
- Miss M had around £10,200 active unsecured debt.

I've carefully considered all the circumstances here including the points Nationwide has made. Whilst I appreciate Miss M passed Nationwide's automatic checks when it decided to provide her with this credit card, I'm persuaded the checks Nationwide carried out were not proportionate – and I'll explain why.

I agree that Miss M's income, amount of unsecured debt, and lack of adverse data on her credit report, doesn't necessarily suggest any financial difficulty. However, whilst Nationwide says there weren't any triggers that meant a manual check should have been carried out, only recently, two months prior to applying for this card, Nationwide had provided Miss M with a £10,000 loan for debt consolidation. And Miss M had been utilising her overdraft with Nationwide up to its limit in the lead up to applying for this card.

I appreciate Nationwide has said taking out the loan could be a case of Miss M sensibly managing her finances by consolidating her debt and therefore reducing her outgoings. Even if I accept this to commonly be the case, the point here is that this information, in addition to Miss M heavily utilising her Nationwide overdraft facility, ought to have been triggers for Nationwide to carry out further checks, considering the new amount of lending it was proposing to provide her with.

I say this because relying on an overdraft facility – and taking out credit in quick succession can be indicators of an over-reliance on borrowing. And I agree with our Investigator that taking out a substantial loan for £10,000 to consolidate debt, only to apply for further credit shortly after, might indicate the potential for becoming overly reliant on borrowing – and therefore that it's possible further borrowing wouldn't be sustainable. So I'm satisfied, having thought about everything in the round, that these issues ought to have given Nationwide pause for thought – and Nationwide should have carried out more checks to satisfy itself that Miss M could sustainably afford the credit card.

Miss M held several other facilities with Nationwide at the time of applying for this card – including current accounts. So, the easiest way for Nationwide to carry out more checks, would have been to review the account statements it already had access to, to see how Miss M was managing her finances. Overall, it seems reasonable to me that, considering the recent sizeable loan granted, the fact the loan was taken out for debt consolidation and the notable overdraft usage, against a not so insignificant amount of lending at £3,000, it would have been proportionate for Nationwide to have looked at Miss M's circumstances in more detail, such as reviewing her bank statements, before deciding whether to lend to her.

As Nationwide didn't carry out proportionate checks, I've considered what proportionate checks would have shown. I've used Miss M's bank statements in the months prior to the lending, to identify what Nationwide would have likely seen, had it taken steps to verify Miss M's income and expenditure – and get a better understanding of her financial circumstances.

Out of the three current accounts held with Nationwide, Miss M only appeared to be using two of them. One of the two accounts she was using had an overdraft facility, and the other didn't.

There are regular transfers between these two accounts, and I can see Miss M's income broadly reflects what she disclosed on her credit card application. She also had regular outgoings for bills and credit payments. Nationwide has since reviewed these statements and raised that Miss M has regular non-essential spending – and suggests it wouldn't be expected to take discretionary spend into account as part of its affordability analysis.

However, I don't think the checks Nationwide carried out were proportionate and had proportionate checks been done, Nationwide would have seen Miss M didn't have enough disposable income to sustainably cover payments. I say this because I can see from Miss M's current account statements that in November and December 2019, shortly before the lending, Miss M is relying on her overdraft, regularly being overdrawn into the hundreds on around a £900 limit, alongside having only a small balance in her other account. I can also see it's only because of the £10,000 consolidation loan from Nationwide being credited, that Miss M had a positive balance again on her account.

I also note from her bank statements that whilst Miss M took the £10,000 loan out for debt consolidation, she appears to only transfer just over half of this to pay off other debts and the rest of the loan (apart from the amount that would have cleared her Nationwide overdraft on that account) was used for everyday spending.

Taking into account the level of lending at £3,000, Miss M's lack of disposable income, reliance on an overdraft, and the fact she'd very recently borrowed £10,000 for debt consolidation, had Nationwide carried out proportionate checks, it ought to have realised Miss M wouldn't have found the further borrowing affordable. And I'm satisfied she wouldn't have been able to sustainably repay the full amount Nationwide was prepared to lend, within a reasonable period of time.

I'm therefore satisfied Nationwide shouldn't have provided this credit card to Miss M.

Given that I don't think Nationwide should have opened the account, it follows that the credit limit increases also shouldn't have been provided. I note that Miss M's circumstances didn't improve around the time the credit limit increases were provided, so as to warrant further lending.

So, I'm also satisfied Nationwide shouldn't have increased Miss M's credit limit.

Miss M went onto and is being expected to pay interest and charges on credit she shouldn't have been provided with. So, she's lost out because of what Nationwide did wrong and therefore Nationwide now needs to put this right.

Putting things right

As Miss M had the benefit of the money lent to her, it's fair she should repay the capital borrowed, but she's also paid interest and charges on credit that shouldn't have been given.

So Nationwide should:

- Rework the account, removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Miss M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Nationwide should also remove all adverse information regarding this account from Miss M's credit file.
- Or, if after the rework there is still an outstanding balance, Nationwide should arrange an affordable repayment plan with Miss M for the remaining amount. Once Miss M has cleared the outstanding balance, any adverse information in relation to the account should be removed from Miss M's credit file.

*HM Revenue & Customs requires Nationwide to deduct tax from any award of interest. It must give Miss M a certificate showing how much tax has been taken off if she asks for one.

My final decision

For the reasons set out above, my final decision is that I uphold Miss M's complaint, and I direct Nationwide Building Society to settle this complaint as outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 28 June 2024.

Sophie Kyprianou
Ombudsman