

The complaint

Mr H is complaining about Nationwide Building Society because he says it lent to him irresponsibly by continuing to provide an overdraft facility he couldn't afford.

What happened

Mr H had a current account with Nationwide. In October 2021, he applied for and was given an overdraft facility. At his request, the limit was increased to £600 in November 2021. The account was later defaulted after he fell into financial difficulty.

Our investigator didn't conclude the complaint should be upheld. After reviewing Mr H's bank statements, she felt the decision to approve the overdraft limit in October and November 2021 was reasonable. She also noted the overdraft was free of interest and other fees and said Mr H wasn't disadvantaged because the facility wasn't removed sooner.

Mr H didn't accept the investigator's assessment and asked for an ombudsman to make a final decision. He didn't provide any further comments of evidence.

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.

Having done so, I've reached the same overall conclusions as the investigator, and for broadly the same reasons. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

An overdraft is a form of running credit that's repayable on demand. This means a bank can ask its customer to repay the full balance at any time. Overdrafts can be an expensive form of credit and are for short-term emergency borrowing needs. They're not intended to be an appropriate means of long-term borrowing. As an overdraft is a form of lending, banks are required to ensure they don't lend irresponsibly.

From reading Mr H's original complaint, it doesn't appear he's particularly questioning the original decision to grant him an overdraft in October 2021 or to increase the limit to £600 shortly afterwards. Instead, his main concern appears to be that Nationwide should have reviewed the overdraft and concluded sooner that it was no longer affordable. Nonetheless, for the sake of completeness, I have considered Nationwide's actions from the date of the original application.

Before offering Mr H an overdraft facility in 2021, Nationwide was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider are:

- Did Nationwide complete reasonable and proportionate checks to establish that Mr H

would be able to repay the credit in a sustainable way?

- If so, was the decision to lend fair and reasonable?
- If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?

Nationwide has provided limited information relating to the initial checks it completed and I share the investigator's view that we can't reasonably conclude these checks were reasonable and proportionate. This is the reason the investigator reviewed Mr H's account statements for the months prior to October 2021. I've reviewed the same statements and I share her view that an overdraft with a relatively low limit would have appeared affordable and that Nationwide's decision to lend was reasonable.

But Nationwide's responsibility to ensure lending was affordable went beyond simply carrying out appropriate checks at the outset. It also had a responsibility to monitor and review the overdraft facility to ensure it remained affordable and that the debt could be repaid within a reasonable period of time.

The relevant rules don't prescribe a specific timeframe when reviews should be carried out. But most lenders terms and conditions state an overdraft facility will be reviewed annually and I think this is a reasonable approach that I consider to be good industry practice. On that basis, I think Nationwide should have first reviewed the overdraft facility one year after it was offered, around November 2022.

November 2022 was also the time when a debt support service engaged by Mr H first contacted Nationwide to propose a payment plan. Nationwide said it couldn't do this at the time as the account and overdraft were still being used. Mr H's representative doesn't appear to have contacted Nationwide until August 2023 and it was shortly after this that the account was defaulted.

I think it should have been clear by November 2022 that Mr H was in financial difficulty and I understand why he may believe the overdraft facility should have been removed at this point. If I were to uphold the complaint, any redress would be based on a refund of interest and charges deducted from November 2022. I wouldn't be instructing Nationwide to write off the amount borrowed as I think the decision to grant the facility was reasonable and Mr H has had use of that money. Given the overdraft was free of interest and charges, I don't believe he suffered any detriment because it wasn't removed immediately.

It's for these reasons that I'm not upholding Mr H's complaint. I realise this outcome will be disappointing for him, but I'm satisfied it's fair and reasonable in the circumstances and I hope the additional explanation is helpful.

My final decision

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 27 May 2024.

James Biles
Ombudsman