

The complaint

Miss J complains that Nationwide Building Society (“Nationwide”) acted irresponsibly in increasing her overdraft limit on three occasions within the space of two weeks in August 2022.

What happened

Miss J holds a current account with Nationwide that was opened in 2006. She had previously held an overdraft on that account but, in 2016, started to face financial difficulties. She gradually repaid her overdraft, through an arrangement with Nationwide, over the following four years.

In August 2022 Miss J requested a new overdraft facility from Nationwide. Her overdraft limit was agreed at £500. But over the following two weeks she made three further requests to increase her overdraft. Each request was approved, resulting in increases to £1,000, £2,000 and £2,500 taking place. Nationwide says it rejected further increase requests that were made the following month.

Miss J says she is not complaining about Nationwide’s decision to provide the initial £500 overdraft. But she says Nationwide acted irresponsibly in approving the subsequent increases to her limit. Nationwide says that, from the outset it would have been willing to provide Miss J with a limit of £2,500, so each of the increases were within her initial approval. It says there were no indications that Miss J would be unable to repay the overdraft she had requested and her bank statements show evidence of significant discretionary spending. Unhappy with that response Miss J brought her complaint to us.

Miss J’s complaint has been assessed by one of our investigators. Whilst he thought that the checks Nationwide had done were proportionate, he thought that Nationwide had failed to make a fair lending decision based on the information it held. So he didn’t think Nationwide should have offered Miss J an overdraft in excess of the originally agreed £500. The investigator set out what Nationwide needed to do in order to put things right.

Nationwide didn’t agree with that assessment. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Miss J accepts my decision it is legally binding on both parties.

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 set out our approach to unaffordable/irresponsible lending complaints on our website and I’ve kept this in mind while deciding Miss J’s complaint.

The rules and regulations at the time Nationwide increased Miss J's overdraft required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check."

The checks had to be "borrower" focused – so Nationwide had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Miss J. In practice this meant that Nationwide had to ensure that making any repayments wouldn't cause Miss J undue difficulty or adverse consequences. In other words, it wasn't enough for Nationwide to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Miss J.

Checks also had to be "proportionate" to the specific circumstances of the application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Nationwide did what it needed to before agreeing to lend to Miss J.

As I have said earlier, Miss J is not complaining about the initial decision to provide her with an overdraft limit of £500. Her complaint relates to the three increases that were provided in the following two weeks. Given the proximity of those increases I think it reasonable to consider the checks that Nationwide performed, and the results of those checks, as if a single lending decision had been taken.

Nationwide, unlike some other lenders, was in a strong position to assess Miss J's financial circumstances since it had ready access to the information contained on her bank statements. That showed details of Miss J's regular income, together with her committed and discretionary expenditure. And Nationwide has shown that it also checked Miss J's credit file before making its lending decisions, both to assess how much she was paying to other creditors, and how she had managed her credit in the past.

I think that the checks I have described above were proportionate. But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline an application outright. And that is what I think should have happened in this case with Miss J's subsequent applications.

Miss J had previously held an overdraft with Nationwide that had got into financial difficulties. Whilst it is clear that Miss J had cleared that overdraft, and had operated her account well for some years, Nationwide would be well aware that history shows that consumers who have faced financial problems in the past, will often face similar problems in the future.

Nationwide would have seen from Miss J's bank account and the results of its credit search that Miss J was paying a significant proportion of her normal income on servicing other credit facilities. As well as having three loans, she was also making what appear to be minimum repayments to at least three credit card accounts, together with a number of payments to "buy now, pay later" providers. Overall I think it is reasonable to conclude that Miss J was likely to have been using credit to meet her day to day living expenses, as well as repaying other lenders.

I also think that Nationwide should have been concerned by the close proximity of Miss J's requests to increase her overdraft limit. The first increase was requested just over a week after her overdraft had been reinstated, With the subsequent requests after a further three days, and then on the following day. Those might have been a clear indication of a consumer that was finding it difficult to manage their finances.

So I don't think it was reasonable for Nationwide, based on the results of its checks, to increase Miss J's overdraft past the initially agreed £500. I have considered that Nationwide says the whole of her limit (£2,500) would have been available at the outset. But that wasn't what Miss J asked for at that time. I think the rapid requests for an increase in the limit should have caused significant concerns to Nationwide, and caused a review of any previous approvals it had made in the background.

So I uphold Miss J's complaint about the subsequent increases and direct Nationwide to put things right.

Putting things right

I don't think it was reasonable for Nationwide to increase Miss J's overdraft limit past the £500 it initially agreed. So Nationwide should take the following actions;

- Unless it has already done so, Nationwide should reduce Miss J's overdraft limit to £500.
- Rework Miss J's current overdraft balance so that all interest, fees and charges applied to it from August 2022 onwards in respect of overdraft balances above £500 are removed. This is to reflect the fact that Nationwide shouldn't have agreed those limit increases.

AND

- If a balance remains on the overdraft, above the £500 limit, once these adjustments have been made Nationwide should contact Miss J to arrange a suitable repayment plan. Miss J is encouraged to get in contact with and cooperate with Nationwide to reach a suitable agreement for this. If Nationwide considers it appropriate to record

negative information on Miss J's credit file, it should reflect what would have been recorded had she only held an overdraft limit of £500 since August 2022.

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 Miss J 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 Miss J's credit file.

[†] HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Miss J a certificate showing how much tax it has taken off if she asks for one.

My final decision

My final decision is that I uphold Miss J's complaint and direct Nationwide Building Society to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 27 June 2024.

Paul Reilly
Ombudsman