

The complaint

Mr and Mrs P say Nationwide Building Society irresponsibly lent to them.

What happened

Mr and Mrs P opened a joint flex account with Nationwide in October 2022. This gave them access to a £1,500 overdraft which was interest free for the first 12 months. The facility was withdrawn in June 2023 after they entered a debt management plan.

They say their finances were rapidly deteriorating at the time and they could not afford to take on more debt. Had Nationwide completed better checks it would have realised this. Accepting no interest was charged, they ask for any account fees to be refunded and any related adverse data to be removed from their credit files.

Nationwide says it completed all the appropriate checks and remains happy with its lending decision.

Our investigator did not uphold Mr and Mrs P's complaint. She said Nationwide's checks were proportionate and showed the facility would be affordable.

Mr and Mrs P disagreed with this assessment and asked for an ombudsman's review. They said Nationwide should have asked more questions as they had £63,000 of unsecured debt; they had taken out three large loans in the months prior indicating their finances were not stable; their files showed plenty of searches showing a desperation for credit; Mrs P's income was variable at the time; they were persistently using buy now pay later plans; they had three dependents and there was evidence of gambling on their bank statements. They did not have the disposable income needed to sustainably repay this facility.

I reached the same conclusion as the investigator, but made different findings in places so I issued a provisional decision. An extract follows and forms part of this provisional decision.

I asked both parties to send any more comments by 6 June 2024.

Extract from my provisional decision

Nationwide says it agreed to Mr and Mrs P's overdraft in October 2022 after it asked for certain information from them (income, housing costs, school fees, council tax), then modelled their household expenditure and carried out a credit search to understand their existing debt level and monthly credit commitments. And these checks showed they had sufficient disposable monthly income so Nationwide deemed the facility to be affordable for Mr and Mrs P.

I don't think these checks were proportionate given the amount of unsecured debt they showed Mr and Mrs P to have. I think at the least Nationwide needed to verify their income in these circumstances – as it knows regulatory guidance is that it is generally not sufficient to rely on an applicant's declaration without using an independent source to verify. And given the debt level I think it also needed to understand the status of that debt. From its

submission I cannot see that it made any investigation into how it was being managed.

To understand what better checks would most likely have shown Nationwide I obtained evidence of Mr and Mrs P's income for the three months prior to application. This showed they had a joint monthly income of £4,311.25 – so somewhat lower than the figure Nationwide used. But the facility still seems affordable on a pounds and pence basis. I say this the credit check showed their monthly unsecured credit commitments to be £905 and their mortgage to be £1,110, they declared 'school fees' of £160 and Nationwide modelled their household expenditure to be £1,712.33 including council tax.

I have then looked at Mr and Mrs P's credit files to understand how they were managing their existing debt. From what I can see all their active credit at the time was up-to-date. I appreciate they feel the amount of debt ought to have concerned Nationwide but its checks showed it was costing them £905 a month which was around 20% of their joint income which I don't think should have automatically been a red flag. Mrs P raised that Mr P had taken out a large loan of around £40,000 just months before for debt consolidation, but I don't think that in itself would be a reason not to lend. Mr and Mrs P could have finished restructuring their borrowings and then decided to take advantage of the interest free overdraft offer for short-term needs. I also note that when they approached Nationwide in December to increase the limit to £2,000 their request was declined as there was no credit turnover on the account.

Mrs P also raised that gambling transactions and the frequent use of buy now pay later plans were evident on their bank statements, but I do not think it would have been proportionate for Nationwide to carry out the level of financial review needed to be aware of this given the low value of the facility and the stage in the lending relationship.

So, overall, had Nationwide carried out proportionate checks I think it could fairly have made the same lending decision.

It follows for the reasons set out above I do not find Nationwide was wrong to approve the overdraft facility for Mr and Mrs P.

Both parties responded before the deadline. Nationwide said it had nothing further to add at this stage. Mr and Mrs P said they had no further questions and were happy for the ombudsman to determine the complaint.

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. I've considered all of this when deciding Mr and Mrs P's complaint.

As neither party sent in any new information or comments for me to consider I have no reason to change the findings or conclusion I reached in my provisional decision.

For the reasons set out above I do not find Nationwide was wrong to approve the overdraft facility for Mr and Mrs P.

My final decision

I am not upholding Mr and Mrs P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs P to accept or reject my decision before 4 July 2024.

Rebecca Connelley
Ombudsman