

The complaint

Miss J and Miss H have complained that Nationwide Building Society (“Nationwide”) irresponsibly granted them an overdraft in July 2019 and then went on to increase the overdraft limits.

What happened

In July 2019 Miss J and Miss H was granted an overdraft of £1,000 on their joint current account. The limit was increased on three occasions in the following months: on 2 October 2019 to £1,500; on 4 October 2019 to £2,500 and on 11 November 2019 to £2,750.

Miss J and Miss H say that Nationwide didn’t carry out the appropriate checks before granting the overdraft, and that it shouldn’t have granted it or the limit increases that followed.

Nationwide didn’t uphold the complaint. It said it was satisfied that all necessary checks were performed at the time of the application for the overdraft and for each of the limit increases.

Miss J and Miss H then brought their complaint to this service. Our investigator looked into it, and thought the whole complaint should be upheld.

Nationwide didn’t agree, and asked for this complaint to be reviewed by an ombudsman.

The complaint has therefore been passed to me for 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided to uphold Miss J and Miss H’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether Nationwide completed reasonable and proportionate checks to satisfy itself that Miss J and Miss H would be able to afford the overdraft and then go on to manage it in a sustainable way.

Nationwide sent in details of the credit checks it carried out before granting the initial overdraft amount and the overdraft increases, as well as copy account statements. Nationwide said that each of the overdraft increases was approved by way of an automated assessment. These automated assessments were intended to ensure that reasonable and

proportional checks were made. I can see that these checks included an affordability check and looked at information from Miss J's existing account with Nationwide – this included a separate current account and a credit card. The credit card had an outstanding balance of around £700 at the point the overdraft was approved. I can also see that it noted Miss J and Miss H had a joint monthly income of around £1,350. Nationwide said that its checks also showed no record of any missed repayments or defaults, and no public records such as an IVA or bankruptcy for either Miss J or Miss H.

Nationwide has said that given there was no history of difficulties with credit there was no reason to decline the overdraft or any of the increases that followed. It says that based on the information and evidence it had seen it didn't consider there was a reason to require a more detailed check of their financial circumstances.

Having looked at the available evidence and information, I am not satisfied that Nationwide's checks were reasonable and proportionate. I think the relatively low income that Nationwide was aware of ought to have suggested that better checks might be necessary. I say this especially given that an overdraft is intended to be a short-term method of borrowing that is primarily intended for emergency use. Also, Nationwide was in a position to rely on the information it already had about Miss J from her other accounts. It was also able to take steps to look further into Miss H's financial situation which is something that didn't happen.

I also think the position is compounded by what Nationwide already knew about Miss J's significant number of gambling transactions – going forward from January 2019 for her other account – opened in February 2019 - and from the inception of the Nationwide credit card she took out in March 2019. These were not occasional gambling spends, but involved sums of up to £300 per month for the current account (in January 2019) and up to £600 per month on the credit card (in May 2019). A substantial level of gambling continued after the overdraft was agreed.

As I have said, I also think it would have been proportionate for Nationwide to have done more to verify Miss H's financial circumstances. One way to do this would be to request copies of her bank statements. I've reviewed copy bank statements leading up to the lending decision and covering the period of the overdraft increases. I've noted that from September 2019 there was an increasing use of gambling sites by Miss H. She spent around £160 in September 2019, around £40 in October 2019 and just over £200 in November 2019. Relatively speaking, these do not represent large gambling sums but they do suggest an increasing tendency to use gambling sites. There was therefore a real risk that her financial situation would easily begin to deteriorate. I think this raises a further question about whether Miss J and Miss H's ability to be able to repay the additional borrowing sustainably as their level of overdraft was increased.

There are additional factors that were likely to have impacted on their ability to afford the overdraft. Miss J took out a car loan in July 2019, requiring payments of around £200 to be made over an eight year period. I've also seen that in August 2019 Miss J and Miss H took out a joint mortgage with a term of 35 years and requiring monthly payments of £420. These were both significant and long-term commitments. Given that their joint income wasn't going up to any notable extent, taking on these new monthly repayments would together have represented a total figure approaching half of their income.

To summarise, I think had it carried out better checks before agreeing the overdraft, as well as when each of the increases took place, Nationwide would have found that Miss J was dealing with gambling issues on her account. And both she and Miss H were taking on substantial credit commitments. So I agree with our investigator that managing and repaying the new overdraft and the increases that were given was unlikely to be affordable – and in

the longer term unsustainable. So I don't think Nationwide acted fairly in agreeing the overdraft lending, or the increases granting further credit. I therefore uphold Miss J and Miss H's complaint.

I've seen that Nationwide have raised a point about the pause on the removal of overdrafts that was put in place after the outset of the worldwide pandemic in March 2020. I've considered this but I don't think it materially affects my findings, given that the date the overdraft and each of the limit increase that were agreed was before then.

I've considered whether the relationship between Miss J and Miss H and Nationwide might have been unfair under S.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Miss J and Miss H results in fair compensation for them in the circumstances of their complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right – what Nationwide needs to do

I think it's fair and reasonable for Miss J and Miss H to repay the overdraft because they have had the benefit of that money. But they have paid interest and charges on an overdraft that shouldn't have been provided to them. Nationwide must put this right.

It should:

- Re-work Miss J and Miss H's current overdraft balance so that all interest, fees, and charges applied to it from 25 July 2019 onwards are removed.
- If an outstanding balance remains on the overdraft once these adjustments have been made, Nationwide should contact Miss J and Miss H to arrange a suitable repayment plan. Once Miss J and Miss H have cleared the outstanding balance, any adverse information recorded after 25 July 2019 in relation to the overdraft should be removed from their credit files.
- 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 refunded to Miss J and Miss H, along with 8% simple interest* on the overpayments from the date they were made until the date of settlement. If no outstanding balance remains after all adjustments have been made, Nationwide should remove any adverse information relating to the overdraft from Miss J and Miss H's credit files.

*HM Revenue & Customs requires Nationwide to deduct tax from any award of interest. It must give Miss J and Miss H a certificate showing how much tax has been taken off if they ask for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons set out above, I have decided to uphold Miss J and Miss H's complaint. Nationwide Building Society should compensate Miss J and Miss H as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H and Miss J to accept or reject my decision before 5 September 2024.

Michael Goldberg
Ombudsman