

## The complaint

Miss C has complained that Nationwide Building Society (“Nationwide”) gave her a loan which she couldn’t afford to repay.

## What happened

A summary of Miss C’s borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	APR	number of monthly instalments	monthly contracted repayment
1	£15,995	19/08/2018	15/07/2020	18.9%	60	£401.29
2	£13,033.54	15/07/2020	outstanding	18.9%	84	£265.65

Miss C wasn’t advanced any new funds when Nationwide provided her with loan 2. Instead, Nationwide restructured the outstanding balance on loan 1 following a payment holiday that was put in place following the COVID-19 pandemic.

Following Miss C’s complaint Nationwide responded saying it conducted a full review and Miss C passed all the necessary checks to indicate that that loan was affordable for her. Unhappy with this response, Miss C referred the complaint to the Financial Ombudsman.

Miss C’s letter of complaint and Nationwide’s final response letter dealt not only with these loans but also a credit card. But we’ve looked at the credit card complaint separately and it is being dealt with under a different complaint reference number. So, I say no more about the credit card here instead this decision deals with the lending decision made by Nationwide in regards to the loan.

The complaint was reviewed by an investigator, who upheld it. The investigator concluded that while a proportionate check may have been carried out it didn’t make a fair lending decision. He concluded the first loan would add to Miss C’s overall indebtedness and she would then be spending a significant portion of her income each month servicing debt.

Had Nationwide viewed her bank statements – which he thought was reasonable, given Miss C was an existing customer it would’ve likely discovered her average account balance wasn’t large enough to service the payment. Finally, there were signs that Miss C was gambling and that would impact her ability to repay the loan in a sustainable manner.

Nationwide didn’t agree, and I’ve summarised its response below.

- Proportionate checks were undertaken before it advanced the loan –included using credit file data.
- Bank statements may have been requested if following the checks something unusual triggered further intervention. However, in the circumstances of Miss C’s application there was no need to manually review bank statements because there wasn’t anything in the information that was gathered which ought to have prompted further checks.

- It isn't practical for Nationwide to manually underwrite each loan application instead it used a system that included checking income, credit commitments and which considered any negative credit file data.
- Until the COVID-19 pandemic, Miss C had made her payments as expected.

These points but didn't change the investigators mind. As no agreement could be reached the complaint was passed to me to decide. I then issued a provisional decision explaining the reasons why I was intending to not uphold Miss C's complaint.

Both Nationwide and Miss C were asked to provide any further comments as soon as possible, but in any event, no later than 19 September 2024.

Nationwide acknowledged the provisional decision and didn't have anything further to add. The Financial Ombudsman hasn't heard from Miss C.

A copy of the provisional findings follows this in smaller font and forms part of this final decision.

### **What I said in my provisional decision:**

*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 general approach to complaints about unaffordable/irresponsible lending - including all of the key relevant rules, guidance and good industry practice - on our website. And I've used this approach to help me decide Miss C's complaint. Having carefully considered everything I've decided to not uphold Miss C's complaint. I'll explain why in a little more detail.*

*Nationwide needed to make sure it didn't lend irresponsibly. In practice, what this means it needed to carry out proportionate checks to be able to understand whether Miss C could afford to repay any credit it provided.*

*Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.*

*But we might think more needed to do be done 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 firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly.*

*I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss C's complaint. Having looked at everything I have decided to not uphold Miss C's complaint and I've explained why below.*

### **Loan 1**

*Miss C, as part of her application declared her income was £1,809 per month. From the information provided by Nationwide it does seem that it checked Miss C's income with a tool provided by a credit reference agency which showed that the amount Miss C had declared was likely to be accurate.*

*Nationwide's has provided a screenshot from its computer systems which shows that Miss C declared she lived at home with parents and so it wasn't surprising when she declared she didn't have any rent or mortgage costs. Miss C declared she had credit card debt of around*

£550 per month and was paying just over £200 per month on outstanding loan repayments.

Even though Miss C declared minimal other living costs Nationwide made some assumptions about her living costs. For example, it assumed that Miss C had housing costs of £100 per month, council tax payment of around £86 and other household expenditure of around £446.

Nationwide, as part of its affordability assessment, carried out a credit search and it has a provided a summary of the results which I have reviewed. It knew Miss C had nearly £11,000 of existing debt and it believed this was costing Miss C around £414 each month to service. There were also no signs Miss C might have been in financial difficulties, there was no County Court Judgments and no defaults recorded on the credit file.

As a starting point, Nationwide as the lender was entitled to rely on the information Miss C gave in her application – unless Nationwide knew, or ought to have known that what she declared was inaccurate. Having reviewed everything, I've not seen anything to have alerted Nationwide that either the information Miss C had declared, or what it used for its affordability assessment was inaccurate. It's fair to say that the information gathered from Miss C and the results of Nationwide's own checks made it, at least, appear as though the monthly loan payments were affordable.

I've considered what's been said about the loan increasing Miss C's overall indebtedness. But any loan taken out is likely to increase a borrower's indebtedness. So, the question for me to consider here isn't simply whether the loan, as a matter of fact, increased Miss C's indebtedness which is almost certainly. The question for me to consider here is whether Nationwide ought reasonably to have realised that providing that it was increasing Miss C's indebtedness in a way that was unsustainable or otherwise harmful.

I've considered whether this was the case. Miss C declared that the proceeds from this loan were going to be used to purchase a caravan. So, there is no dispute that Nationwide ought to have known that this loan would increase and more than double the total amount of outstanding debt it was aware Miss C already had. From Nationwide's own calculations it knew that once its loan payment was factored in Miss C would have to pay £815 per month towards repaying credit.

I have thought about this because, Nationwide would've known that Miss C was committing to spending around 45% of her income purely towards making repayments to credit commitments and this was without covering any other expenditure she may have had.

In certain circumstances, where for example the lender knows or ought reasonably to have known that the borrower had other living costs, such as rent and or dependents, then it could be argued that a borrower paying 45% of their income was perhaps too much to be sustainable without the living costs themselves being actually ascertained rather than being derived from statistical modelling. And such a scenario perhaps ought to have prompted Nationwide to have more looked more closely into Miss C's application.

But in Miss C's application, Nationwide was told that Miss C lived at home with parents, there wasn't anything which obviously contradicted this, such as mortgage payments on the credit file. Furthermore, the checks Nationwide did do indicated the loan was affordable. Given this was also combined with there not being any adverse credit file data, then I don't think, in the circumstances of this application that Nationwide ought to have carried out further checks.

For the sake of completeness and even though I have found that Nationwide didn't need to do this, I've, in any event, not seen anything which persuades me that Nationwide carrying out further checks would more likely than not have led it to a different lending decision.

I say this because Miss C's bank statements appear to support the level of income that she declared. There also wasn't anything in the way she managed her Nationwide bank account to suggest that she was in financial difficulties at the time of this application.

*There were payments for things such as car insurance, loans and credit cards, a regular payment which appears to be made to a parent – which given the lack of other living costs visible is like a payment for housing. Miss C has said that once she was paid, she moved money into different accounts and then drip fed the money back in when she knew that she had a bill due – and this is reflected in the bank statements. And none of this information suggests that the monthly payments to this loan were unaffordable.*

*Overall, I'm not persuaded that Nationwide acted unfairly when providing this first loan to Miss C, I think it completed reasonable and proportionate checks which showed the loan to be affordable and sustainable. Equally, even if it had done more, I don't think further checks would have likely led to a different lending decision.*

## **Loan 2**

*No further fund were advanced to Miss C at this time – instead it was a re-write of loan 1 which extended the term. What Nationwide effectively, did was change the loan term in order to reduce Miss C's monthly repayment to it. As a result of extending the term Miss C's repayment reduced by around £135 per month.*

*I made enquiries with Nationwide to find out what happened and what led to the loan being re-written. The change of loan term and payment appears to have been brought about due to the COVID-19 pandemic. Up until the start of the pandemic Miss C had made her contracted payments as expected. However, after the payment, and following the industry regulator implementing temporary and time limited guidance for lenders as to how they deal with difficulties caused to consumers solely by the pandemic.*

*I can see from the statement of account, that for the period April – June 2020, Miss C only made monthly repayments of £1 per month. However, as was allowed under the guidance at the time, the contracted interest was still accruing. So, at the end of the payment holiday Miss C's loan account was in arrears of around £1,200.*

*The guidance at the time suggested a number of options as to how Miss C could repay these arrears for example she could, if she was able to, repay the arrears in full and then return to normal contracted payments. While Nationwide has supplied debt collection notes, these notes don't provide any meaningful detail to understand what discussions were had with Miss C in July 2020 when loan 2 was put in place. This is why I made further enquires with Nationwide to find out what happened that led to the loan being re-written.*

*Nationwide has explained that it doesn't have any more information around the circumstances that led to loan 2 and it's likely the re-write occurred following online contact. Nationwide also said that it had to change its systems to allow the payment holidays without missed payment information being reported to the credit reference agencies. As a result, once a payment plan finished the loan would be in arrears. So, where a customer wasn't able to immediately repay these arrears, Nationwide offered the customer the option of incorporating these arrears into a new loan – as is what happened here.*

*At this point, Miss C had two options, she could've had new monthly payments calculated over the remainder of the original loan term incorporating the arrears that had built up. Or, Miss C instead had the option of extending the loan term, incorporating the arrears and reduce, rather than increase, her monthly repayments. Given the various options, I'm satisfied that Miss C on balance chose to incorporate the arrears into a new longer-term loan in order to reduce her monthly repayment going forward.*

*Had Miss C declined to have re-written the loan either over the same term or with new terms, then Nationwide said it would've agreed a repayment plan with Miss C to repay the arrears and this would've been reported to the credit reference agencies. But agreeing to the re-write of the loan (and making the scheduled repayments) meant Miss C's credit file wasn't impacted by the payment holiday.*

*Although Nationwide said it didn't carry out any further affordability checks before the re-*

*write, from the information provided it does seem that Nationwide carried out a new credit search. This didn't show any County Court Judgements or defaults recorded against Miss C.*

*But it did show that her overall indebtedness had significantly increased since the loan was granted in 2018. This time, she had just over £41,000 of debt – of course, this amount included the Nationwide loan already granted, and indicated that following the approval of the loan in 2018 Miss C sought and was granted new credit from other sources. I would agree that this would have merited further investigation had Miss C been advanced new funds. But the fact is that Nationwide was merely restructuring what Miss C already owed.*

*Given no new credit was advanced and Nationwide was responding to a request to assist Miss C during a time of significant upheaval, I don't think it was unreasonable of Nationwide to have restructured the loan in the manner that it did. Doing this this way, meant that the loan could cost Miss C slightly more – if this loan runs to the end of its term - but it provided a lower payment at a time where Miss C is likely to have found it difficult to make a higher monthly payment. And she still had the flexibility to repay the loan early if she wanted to. I therefore do not uphold Miss C's 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.

As neither party has provided any new submissions or comments, I see no reason to depart from the findings I reached in the provisional decision. I still think Nationwide carried out proportionate checks before it lent loan 1 to Miss C and it treated Miss C fairly during a time of significant change during the COVID-19 pandemic.

I therefore do not uphold the complaint.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Nationwide lent irresponsibly to Miss C or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

### **My final decision**

For the reasons I've explained above and in the provisional decision, I'm not upholding Miss C's complaint and I make no award against Nationwide Building Society.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 22 October 2024.

Robert Walker  
**Ombudsman**