

The complaint

Mr W complains that Nationwide Building Society irresponsibly provided him with access to an overdraft facility and allowed him to become reliant on it without stepping in. He says this resulted in the relationship between the parties being unfair.

Mr W is supported in bringing this complaint by a representative. But, for ease, I'll refer to actions and submissions as being those of Mr W throughout.

What happened

Mr W was provided with an overdraft facility in April 2019 with a limit of £500. The overdraft limit increased in the following way:

- Increased to £700 in April 2019
- Increased to £1,000 in May 2021
- Increased to £1,500 in June 2021
- Increased to £1,750 in July 2021
- Increased to £2,000 in July 2021

In summary, Mr W says Nationwide didn't undertake an appropriate assessment of his circumstances and failed to take into account that he was reliant on borrowing. Mr W says he remained at the upper limit of his overdraft for a prolonged period and incurred significant charges as a result.

Nationwide reviewed the complaint but didn't uphold it. In summary, it said there were regular credits into the account which supported the agreed overdraft limits. It also said there were several non-essential payments on the account, and if these were reduced then they would more than cover the interest charged, and reduce the time spent in a debit balance.

Mr W remained unhappy and brought his complaint to this service. An Investigator here reviewed matters and didn't think it was unreasonable to provide the credit limits on the account. However, he thought Nationwide ought to have stepped in from December 2021 because he thought Mr W was reliant on the overdraft, and also because he could see Mr W had drawn money early from his salary.

Mr W accepted the Investigator's position, but Nationwide disagreed with it. In summary, it said it would have been disproportionate to have conducted an investigation of Mr W's income and where it originated from. It also pointed out that Mr W was making non-essential transactions.

Overall, an agreement hasn't been reached. So, the case has been passed to me to decide.

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.

I think it's important to firstly explain that I've read and considered all the information provided by both parties in reaching my decision. If I've not reflected something that either party has said or commented on a piece of information that's been provided, that's not because I haven't seen it, it's because I didn't deem it relevant to the crux of the complaint. This isn't intended to be a discourtesy to either party. Rather, it reflects my informal role in deciding a fair and reasonable outcome.

I've started by looking at whether Nationwide acted fairly and reasonably when accepting Mr W's overdraft application in April 2019 and then increasing his limit in the same month.

The rules and regulations in place at the time Nationwide provided Mr W with the overdraft and the limit increases required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an 'affordability assessment' or 'affordability check'.

The checks had to be 'borrower' focused. This means Nationwide had to think about whether repaying the credit sustainably and within a reasonable period of time would cause difficulties or adverse consequences for Mr W. In other words, it wasn't enough for Nationwide to consider the likelihood of it getting the funds back – it had to consider the impact of any repayments on Mr W.

Checks also had to be 'proportionate' to the specific circumstances of the lending. In general, what constitutes a proportionate affordability check will be dependent on a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they were seeking. I've kept all of this in mind when thinking about whether Nationwide did what it needed to before lending to Mr W.

Mr W's overdraft is a type of revolving credit facility. This means that when assessing whether Mr W could repay any overdraft sustainably, Nationwide needed to consider whether Mr W could repay the amount he could owe as a result of his overdraft within a reasonable period of time.

Nationwide has provided information gathered from the Credit Reference Agencies about how Mr W managed his existing credit from the time of each lending decision. It hasn't been able to provide any application information for the overdraft or increases due to the time that has passed. Though it has said the checks carried out at the point of application would have been automated income and expenditure calculations using internal models, declared expenditure and modelled expenditure using external sources. Nationwide has also said that the review wouldn't have included looking at Mr W's bank statements.

Mr W was provided with an overdraft limit of £500 and a credit limit increase to £700 both in April 2019. Nationwide's checks revealed that Mr W had active unsecured debt balances of close to £2,000 and he was managing his current debt well with no recent adverse information. The data showed Mr W had a default recorded around 17 months before, however the balance appeared to have been settled.

In my opinion, Nationwide hasn't been able to clearly evidence the results of all its income and expenditure checks. So, for completeness, I've reviewed Mr W's statements to piece together what proportionate checks would have likely revealed. Having considered Mr W's income and committed non-discretionary expenditure, I think Nationwide's checks would have revealed that Mr W was likely to be able to repay an overdraft limit of up to £700 within a reasonable period of time. Therefore, I don't think Nationwide acted unfairly by providing limits up to this value.

As well as ensuring that Mr W could afford to repay the overdraft when the limits were initially provided, Nationwide also had an obligation to monitor the facility to ensure it remained affordable and that Mr W could repay the debt within a reasonable period of time. I've reviewed the statements from when the overdraft was provided up until the limit increases in 2021 occurred. Having done so, and considering when the overdraft renewals would have taken place, overall, I think Mr W had enough disposable income to repay the overdraft within a reasonable period of time once his committed non-discretionary expenditure had been deducted from his income.

I note there were instances where Mr W did enter the unarranged overdraft. However, he was often able to bring the account back in line shortly afterwards. Having thought carefully about all the circumstances evidenced on Mr W's statements, I don't think it was unreasonable for the account to have remained in force over this period. I say this especially considering Mr W's monthly income and the amount that would have been required to repay the overdraft limit of £700 within a reasonable period of time.

The limit was increased incrementally from May 2021 until it reached £2,000 in July 2021. Nationwide completed a credit check which showed Mr W had a maximum of close to £4,000 of active unsecured debt balances and the last default was recorded over three years previously. I've considered that Nationwide's checks would have also involved an automated review of income and expenditure at the time, which I don't think is unreasonable in the circumstances. Having reviewed the income and committed non-discretionary expenditure visible on the account, in the circumstances of this particular case, I don't think it was unreasonable to provide these limits to Mr W. The information suggested that he would have enough disposable income to repay a limit of up to £2,000 within a reasonable period of time.

The next overdraft renewal occurred later that year, in December 2021. Our Investigator thought that Nationwide ought to have stepped in by this point. Having reviewed the statements, I agree with our Investigator's overall outcome here.

Whilst Mr W's spending habits hadn't changed much, and he was often still making several discretionary transactions, it's worth noting that the account had rarely seen a credit balance now for over two years. Nationwide will be aware that overdrafts are intended for short-term emergency borrowing and not prolonged day-to-day expenditure.

What's key is that the account also continued to frequently enter the unarranged overdraft. Notably in November 2021, the account was in the unarranged overdraft until Mr W received a credit for £3,300 to bring the account out of the unarranged position. Mr W said the credit was a loan taken through his employer, and the payments towards the loan were taken from his salary because he was in a poor financial position at the time. Having reviewed the bank statements, the average monthly income from Mr W's employer decreases in the months following the credit into the account, which supports his argument that payments were being deducted from his salary. I've also not been presented with anything to persuade me this wasn't the case, and so I think what he has said is plausible.

However, whether the loan was or wasn't linked to Mr W's employer, the important thing is the loan was what was required to bring Mr W's account out of the unarranged overdraft. And, I think this is something Nationwide ought to have picked up on when deciding whether to renew the facility at this time. Additionally, if the loan was indeed linked to Mr W's employer, which I think it more likely than not was for the reasons already outlined, it was for more than Mr W's usual monthly income.

It's also important to note that this wasn't the first loan of this type Mr W received; he had received similar credits from the same provider over the time he held the overdraft. However, this most recent loan was the largest that had credited the account since the overdraft was provided. And, Nationwide should have been aware at this point that this was becoming more regular, rather than being one-off occurrences. I think it ought to have been clear to Nationwide that Mr W was reliant on this credit and it should have taken action at this point, but I've not seen any evidence to suggest it did.

I note Nationwide's point that it thinks it would have been disproportionate to carry out an extensive investigation into Mr W's income and where it originated from, and that it didn't agree that a lender should ascertain whether or not a customer's income is made up of an advancement of wages before deciding whether a customer is in financial difficulties. However, I think it's clear from the statements that these credits weren't from Mr W's usual salary and were instead lump sum credits which I'm persuaded were loan credits. And, as outlined above, this wasn't the first time Mr W had received a loan of this type. So, I'd expect Nationwide to have taken note of this as part of a review of the facility. Additionally, I wouldn't expect Nationwide to consider lump sum credits from loans as income during its review.

So overall, I think Nationwide ought to have taken action in December 2021 and shouldn't have continued offering the facility on the same terms. I think by not doing so, it failed to act fairly and reasonably. Therefore, I direct Nationwide to put things right by doing the following:

- Rework Mr W's current overdraft balance so that all interest, fees and charges applied to it from December 2021 are removed,

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made, Nationwide should contact Mr W to arrange a suitable repayment plan for this. If it considered it appropriate to record negative information on Mr W's credit file, it should backdate this to December 2021.

OR

- If the effect of removing the relevant interest and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr W 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 the adjustments have been made, then Nationwide should remove any adverse information from Mr W's credit file.*

*HM Revenue & Customs requires Nationwide to take off tax from this interest. Nationwide must give Mr W a certificate showing how much tax it has taken off if he asks for one.

I've considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr W in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My final decision is that I uphold this complaint and direct Nationwide Building Society to settle this complaint in the way I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 14 November 2025.

Hana Yousef
Ombudsman