

The complaint

Miss H complains that Nationwide Building Society gave her an overdraft and subsequent limit increases which she couldn't afford to repay.

What happened

In October 2015 Nationwide agreed an initial overdraft limit of £100 on Miss H's current account. It then went on to increase her limit on a number of occasions:

- February 2018 to £500
- July 2019 to £800
- November 2019 to £1,000
- July 2020 to £1,200
- August 2020 to £1,400
- October 2020 to £1,500
- October 2020 to £1,700 (two days after the previous increase)
- December 2020 to £2,000

The overdraft limit was then decreased to £1,000 in January 2023. Miss H contacted Nationwide in April 2023 to say she was struggling financially. In response Nationwide has said it didn't apply (or refunded) charges for May, June and July 2023. Nationwide says it advised Miss H to contact it in July/August 2023 to complete an income and expenditure assessment if she needed further help. Miss H didn't go on to contact Nationwide with income and expenditure information at this time.

Nationwide considered the complaint, but didn't uphold it. It thought it had completed proportionate checks and as a result of these checks, it argued it was reasonable to lend. Unhappy with Nationwide's response, Miss H referred her complaint to our service.

One of our investigators considered the complaint. They concluded that Nationwide shouldn't have agreed the first increase to £500 in February 2018, so they upheld the complaint from this point onwards. Nationwide didn't agree and asked for an ombudsman to consider the complaint and so the complaint has been passed to me.

I issued a provisional decision and further correspondence where I set out that I didn't think Nationwide completed proportionate checks before agreeing to lend. And I felt that from the increase to £500 in February 2018, had Nationwide completed proportionate checks it should have seen that Miss H couldn't have afforded to take on any further borrowing. So I upheld the complaint from that point.

In response Miss H accepted my decision. Nationwide responded disagreeing with my decision to uphold from the February 2018 increase to £500. However, it did agree that there were signs that Miss H was having difficulty from September 2019, so it agreed to uphold her complaint from this point onwards.

This offer was put to Miss H who didn't accept. So I will now reconsider the complaint in full

before reaching a final 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.

I'll start by explaining that as Miss H accepted my provisional decision and Nationwide accepted that it should have taken action from September 2019 onwards, the only lending decisions which are still in dispute are the limit increase to £500 in September 2018 and the £800 limit increase in July 2019.

Having considered all the information I've been provided, I am minded to reach the same outcome as I reached in my provisional decision.

How we consider irresponsible lending complaints

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. I have used this approach to help me decide Miss H's complaint.

Nationwide needed to make sure it lent responsibly to Miss H. It therefore needed to complete sufficient checks to determine if Miss H could afford to sustainably repay the lending. Our website sets out our approach to what we typically think when deciding if a lender's checks were proportionate. There is no set list of checks a lender should do, but there is guidance on the types of checks a lender could complete. However, these checks needed to be proportionate when considering things like the amount and term of the lending, what the lender already knew about the consumer, etc.

Generally, we think that earlier in a lending relationship it would be reasonable for a lender's checks to be less extensive. However, we might expect a lender to do more, for example, if a borrower's income was low and/or the amount lent was high.

The checks Nationwide completed

Nationwide has said, at the time of each of the lending decisions still in dispute, it completed a credit search. It also assessed affordability by considering debts shown on her credit file, together with income and expenditure information.

In terms of income Nationwide has said it didn't ask Miss H for income information and instead it considered any funds deposited into the account to be income (less any transfers between accounts). And apart from existing credit commitments it is unclear what, if any, additional expenditure information Nationwide considered.

In response to my provisional decision Nationwide has maintained that it feels the checks completed before agreeing the increase to £500 (and by extension the £800 limit increase) were reasonable and proportionate. In particular, it highlighted that the rules allow it to rely on automated checks (such as its income checks) and it feels it acted within the spirit of the regulations. It also said the account management wasn't concerning in the months immediately prior to the £500 limit increase.

I've considered Nationwide's points further, particularly in relation to Miss H's income but unfortunately, I don't agree. Nationwide is correct that it is able to rely on automated processes when making a lending decision so long as it is reasonable and proportionate to do so.

In its initial response to this complaint which it made to our service, Nationwide conceded that it is aware the income information it relied on may not have been accurate. It also acknowledged that it didn't ask Miss H to confirm its income estimations during the application process.

Nationwide has said that in the month prior to lending it estimated Miss H's income to be just under £1,200 and in the month prior to this it was around £740. It's not clear if, given the passage of time, Nationwide is recreating this or if this was what it estimated at the time. But in any event, it's likely to be reflective of the information Nationwide relied on when making its decision. Firstly, I think the level of variation between the two months should have given Nationwide cause to question her actual income, particularly given it was aware the estimates might not be an accurate reflection.

Secondly, it's not clear if the two months were considered or just the one month prior in making its lending decision, but they both reflect a rather modest income. So I also think that the fluctuation and/or low amounts should have given Nationwide cause to question further at this time.

Turning to the increase to £800, again Ms H still had a relatively modest income and Nationwide had reason to question the amounts it was relying on as income. Furthermore, Nationwide hasn't provided full details of what expenditure information it relied on before agreeing either limit increase. So, I don't think Nationwide completed proportionate checks before agreeing either limit increase still in dispute.

For the avoidance of doubt, I am not saying that Nationwide shouldn't use automated processes. I'm saying that in this case it was reasonable and proportionate for Nationwide to complete additional checks. I'm also not saying that proportionate checks would have involved a thorough review of her financial circumstances such as reviewing bank statements and completing an income and expenditure assessment. However, as proportionate checks weren't completed, I now need to try to recreate what they would have most likely revealed had Nationwide completed them at the time. And Miss H's bank statements are a reliable way of establishing what her actual income and high-level expenditure was.

What would proportionate checks have most likely shown?

- *The limit increase to £500 in February 2018*

As detailed in my provisional decision and above, Miss H's actual income was extremely modest. I also think that by establishing her actual income it's reasonable Nationwide would have uncovered the support she was receiving from family (indicating she was already struggling). But even if I'm wrong about this, when considering Miss H's actual income against the payments she was making to her Nationwide credit card and her mortgage (both

of which Nationwide would have been aware of at the time of lending), I think it should have been clear to Nationwide that she was going to have limited funds available. And this is before I consider essential living costs, such as food and clothing, or the costs involved with running a home (such as utilities etc.)

As I set out in my provisional decision, I have taken into consideration that this was a relatively low overdraft limit of £500 and I've not seen anything to suggest she had recent adverse markers on her credit file. However, I still don't think Nationwide completed reasonable and proportionate checks before agreeing to lend. And I think if it had taken these steps, it should have realised that Miss H was unlikely to be able to sustainably repay this limit increase. So I don't think Nationwide made a fair lending decision

- *The limit increase to £800 in July 2019*

I don't think her circumstances had materially improved in the months leading up to this limit increase. I've taken into consideration that Miss H is not making consistent payments to her Nationwide credit card in the same way as she was leading up to the February 2018 increase. However, she is still receiving support from her mother, demonstrating she is struggling to meet her regular expenditure with her income alone. She is unemployed and receives state benefits, which result in a relatively low monthly income. And she is largely overdrawn in the months leading up to this limit increase. So I think proportionate checks would have revealed that Miss H couldn't have afforded to sustainably repay these limit increases.

Nationwide has highlighted a number of small credits coming into the account and stated this suggests Miss H was also running a business. Having considered her statements, I'm not entirely persuaded this is definitive from this information alone. However, even if I'm wrong, the amounts involved are so low that I don't think they materially impact her circumstances. Furthermore, I think if the credits are being considered as income, then the payments going out to the same organisations could reasonably be considered as part of her regular expenditure. And I can see a number of payments of this nature going out of her account. So this has even less impact on her circumstances. Ultimately, given she was still receiving support from her mother in the months leading up to this limit increase and was almost consistently overdrawn, I'm not persuaded that this changes the outcome on these lending decisions.

So for the reasons explained above, I don't think Nationwide made a fair lending decision in relation to this limit increase.

Other considerations

I've considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974.

However, I'm satisfied the redress I have directed below results in fair compensation for Miss H in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

- Re-work Miss H's current overdraft balance so that any additional interest, fees and charges applied as a result of the overdraft limit increases from February 2018 onwards are removed. This means that from February 2018 onwards interest can only be charged on the first £100 of any overdrawn balance.*

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Nationwide should contact Miss H to arrange a suitable repayment plan for this.

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 H, 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 H's credit file. †

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

*I understand that Nationwide either didn't apply (or refunded) charges for May, June and July 2023. It therefore doesn't need to include these amounts within its compensation calculation.

My final decision

For the reasons explained above and in my provisional decision, I uphold this complaint against Nationwide Building Society in part and I require it to put things right in the way I've described above.

Claire Lisle
Ombudsman