

Complaint

Miss S has essentially complained that Nationwide Building Society (“Nationwide”) unfairly provided her with an overdraft that was unaffordable.

She also says that it continued applying charges to her overdraft even after it should have realised that she was in financial difficulties because of her gambling.

Background

Miss S was initially provided with an overdraft that had a limit of £1,500.00 in March 2023. Miss S’ overdraft limit was then increased on two occasions in September 2023. It was firstly increased to £3,000.00 and then the limit was increased to £5,000.00 shortly afterwards.

One of our investigators looked at this complaint and thought Nationwide shouldn’t have increased Miss S’ overdraft limit to £5,000.00 in September 2023 and so it needed to refund the associated interest, fees and charges it added to Miss S’ account.

Miss S didn’t disagree with the investigator’s assessment. However, Nationwide did disagree with it and asked for an ombudsman’s review of the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I’m upholding Miss 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 is Nationwide needed to carry out proportionate checks to be able to understand whether Miss S 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 a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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 lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

In its final response, Nationwide said that its decision not to uphold Miss S’ overdraft complaint was based on Miss S not exceeding her agreed limit. However, I don’t think that this in itself means that it was fair and reasonable for Nationwide to have provided the limit increase in the first place. Furthermore, the final response didn’t say anything at all about

why it thought Miss S was able to repay £5,000.00 within a reasonable period of time at the time it agreed to provide this limit.

That said when the complaint was referred to us Nationwide said that it agreed to increase Miss S' overdraft limit after it obtained information on her income, some information on her expenditure and also carried out a credit search on her. And, in its view, the information obtained indicated that Miss S would be able to repay £5,000.00 within a reasonable period of time.

I've seen records of the information Nationwide obtained from Miss S about her income, her expenditure and what was on the credit search carried out. Nationwide says that Miss S declared receiving an annual salary of £34,000.00 and had mortgage or rent costs of just under £400 a month. However, the information that Nationwide has supplied also shows that Miss S had declared having a monthly income of £1,900.00 when she made loan applications earlier in the year.

Furthermore, its cross checking as part of Miss S' loan applications, suggested that it didn't have a high confidence in Miss S receiving this amount. In these circumstances, I think that Nationwide had some reason to be sceptical of whether Miss S had an annual income of £34,000.00.

In any event, even if I am to accept that Miss S had an annual income of £34,000.00, her Nationwide account statements show token standing order payments being made to more than one creditor. Payments for such token amounts are only typically made when a customer has defaulted, or is about to default on a debt, or where the customer has been provided with some sort of breathing space in order to find a solution to repaying problem debt. Such payments being made on a monthly basis are a reason for concern, especially when this is considered in the context that Miss S' account shows a payment to a debt collection agency as well.

I'm also mindful that Nationwide refused to pay a standing order to HMRC for over £6,500.00, because Miss S had insufficient funds in her account, just over a week prior to her application to increase her overdraft limit. Irrespective of whether Miss S failed to make the payment because she was in difficulty (for the sake of completeness I would add that what I've already highlighted does tend to support this interpretation), as Nationwide refused to make this payment, at the very least it ought to have been on notice that Miss S may have had significant arrears with HMRC.

I note that Nationwide believes it unfair for the investigator to have considered the incomings and outgoings from an account Miss S held with another provider in reaching his conclusions. However, for the reasons I've explained, I'm satisfied that Nationwide had sufficient information as a result of the activity in Miss S' Nationwide account to have questioned whether it was appropriate to agree to a limit increase. I take little comfort from any argument that Miss S may have already been approved for a limit of £5,000.00 earlier in September 2023.

I don't think that it would be unfair to describe an overdraft limit of £5,000.00 as being on the larger side. At best, Miss S had an annual income of £34,000.00 and the information in her Nationwide current account statements appear to suggest that she may well have been struggling to repay more than one creditor and she is also likely to have had a significant liability to HMRC as a result of the unpaid direct debit. In these circumstances, I don't see how it could reasonably be concluded that Miss S would be able to repay an overdraft limit of more than double her monthly income, within a reasonable period of time.

Indeed, given the circumstances I have described, I'm not only persuaded that it wasn't fair and reasonable for Nationwide to increase Miss S' overdraft limit to £5,000.00, but that it had sufficient cause to question whether the overdraft limit Miss S already been provided with remained sustainable for her. As Nationwide increased Miss S' overdraft limit to £5,000.00 in circumstances where it had enough information to realise that the facility had already become unsustainable for her, I find that Nationwide failed to act fairly and reasonably towards Miss S.

Miss S ended up paying interest, fees and charges on her overdraft as a result of Nationwide failing to act fairly and reasonably towards her. So I'm satisfied that Miss S lost out because of what Nationwide did wrong and that it should now put things right.

In reaching my conclusions, I've also considered whether the lending relationship between Nationwide and Miss S might have been unfair to Miss S under section 140A of the Consumer Credit Act 1974.

However, I'm satisfied that what I direct Nationwide to do in the section below results in fair compensation for Miss S given the overall circumstances of her complaint. For the reasons I've explained, I'm also satisfied that, based on what I've seen, no additional award is appropriate in this case.

Fair compensation – what Nationwide should do to put things right for Miss S

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Miss S' complaint for Nationwide to put things right by:

- Reworking Miss S' current overdraft balance so that all interest, fees and charges applied to it from September 2023 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Nationwide should contact Miss S to arrange a suitable repayment plan, Miss S is encouraged to get in contact with and cooperate with Nationwide to reach a suitable agreement for this. If it considers it appropriate to record negative information on Miss S' credit file, it should reflect what would have been recorded if it had started the process of taking corrective action on the overdraft in September 2023. Nationwide can also reduce Miss S' overdraft limit by the amount of refund if it considers it appropriate to do so, as long as doing so wouldn't leave her over her limit.

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 S 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 S's credit file. Nationwide can also reduce Miss S's overdraft limit by the amount of refund if it considers it appropriate to do so.

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

My final decision

For the reasons I've explained, I'm upholding Miss S' complaint. Nationwide Building Society now needs to put things right in the way I've directed it to do so in the section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 20 May 2026.

Jeshen Narayanan
Ombudsman