

The complaint

Miss S complains that Nationwide Building Society lent irresponsibly when it approved an overdraft limit of £500 and went on to increase it to £2,500. Miss S also complains that Nationwide failed to monitor her account for signs of financial difficulties and provide reasonable support.

What happened

Miss S had a current account with Nationwide and in May 2021 applied for a £100 overdraft facility that was approved. In June 2021 Miss S requested an overdraft limit increase to £1,000 and in July 2021 it was increased to £2,500. Nationwide says it carried out the relevant lending assessments before increasing Miss S' overdraft limit and that they were approved in line with its criteria at the time.

Miss S went on to use the overdraft facility and within a reasonably short period of time was consistently overdrawn despite credits being received each month. As a result of the balance of the account, Miss S incurred interest, fees and charges each month.

Nationwide says it identified Miss S' account was in a "pre-repeat use" position in November 2021. This means Nationwide picked up Miss S' account was consistently overdrawn over an extended period. Nationwide says it emailed Miss S, highlighting the pattern of use in her account and providing useful information.

Nationwide found Miss S' account entered "repeat use" in January 2022. That means the balance had been identified as being consistently overdrawn over a significant period. Nationwide says it sent a further email to Miss S in January 2022. Nationwide says it contacted Miss S again in April 2022, August 2022, February 2023 and May 2023 concerning the position of her account. The overdraft limit was reduced to £2,000 in July 2022.

In January 2023 Miss S made contact and asked to increase her overdraft limit but Nationwide declined to proceed. Nationwide says it agreed to refund charges applied to Miss S' overdraft from July 2022 to January 2023 as a gesture of goodwill in an attempt to assist her.

Last year, Miss S complained to Nationwide and it issued a final response on 14 July 2023. Nationwide didn't uphold Miss S' complaint and said it had carried out the necessary checks before agreeing to approve the overdraft limit and subsequent increases in 2021.

Miss S referred her complaint to this service and it was passed to an investigator. They thought Nationwide had carried out reasonable and proportionate checks when assessing the overdraft requests Ms S made. But the investigator thought Nationwide should've picked up on signs Miss S was experiencing financial difficulties around June 2022, when it should've carried out a review of her account due to the overdrawn balance. The investigator highlighted payments to high-cost lenders that they felt should've helped identify Miss S needed support. The investigator upheld Miss S' complaint and asked Nationwide to refund all interest, fees and charges applied to her current account from June 2022 onwards.

Nationwide asked to appeal and said that when Miss S asked to increase the overdraft limit in August 2022 and July 2023 the requests were turned down. Nationwide also said that during the pandemic it paused “overdraft expiries” in line with industry guidance. Nationwide explained the step was taken with the goal of not placing the customer into additional financial difficulties by removing a line a credit. Nationwide also pointed out it reached out to Miss S during this period having identified the consistently overdrawn position of her account. Nationwide said it fairly offered Miss S assistance when it refunded charges applied between July 2022 and January 2023. Nationwide asked to appeal, so Miss S’ complaint has been passed to me to make 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.

Before agreeing to lend by increasing the credit limit, the rules say Nationwide had to complete reasonable and proportionate checks to ensure Miss S could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower’s circumstances. The nature of what’s considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer’s individual circumstances.

That means there’s no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what’s reasonable and proportionate. Lenders may choose to verify a borrower’s income or obtain a more detailed picture of their circumstance by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

Like the investigator, I’ve reviewed the lending data Nationwide has supplied. I can see that at the time of applying for the overdraft and subsequent increases Miss S was receiving a regular salary plus contributions from a third party in addition to benefits. I can see that Nationwide considered regular outgoings, including those required to service her existing debts and living expenses. I’m satisfied Nationwide identified regular outgoings from Miss S’ account and considered them against her income. I’m satisfied the information found indicated Miss S had some disposable income to cover overdraft payments. Based on the information Nationwide found between May and July 2021, I’m satisfied it did carry out reasonable and proportionate checks before approving the overdraft limit up to £2,500. I’m sorry to disappoint Miss S but I haven’t been persuaded that Nationwide lent irresponsibly.

I’ve gone on to look at whether Nationwide did enough to monitor Miss S’ account for signs of financial difficulty and provide appropriate support. The investigator upheld Miss S’ complaint on the basis that a regular overdraft review in June 2022 should’ve found Miss S was consistently using the overdraft instead of using it for short term borrowing – as it was designed for. They thought Nationwide should’ve stepped in at this point because Miss S was relying on the overdraft to cover her everyday living expenses in addition to borrowing from high-cost lenders.

Nationwide’s response explained that in June 2022 it was following industry guidance that meant it wasn’t able to remove overdraft facilities during the pandemic. And Nationwide also

pointed out it had contacted Miss S about the status of her account during the period in question but didn't receive a response.

Having considered all the available information, I haven't been persuaded Nationwide acted fairly when it continued to apply interest and charges to Miss S' outstanding balance from June 2022. At this time, Miss S' account balance had been overdrawn for a significant period and Nationwide had picked up that it wasn't returning to credit each month despite payments being received.

In addition, Miss S' statements show she was borrowing elsewhere, including accounts with high-cost lenders that were being paid from her account. I'm satisfied Miss S' account activity doesn't show signs she was in a position to repay the outstanding balance without undue hardship or having to borrow money from other sources. In my view, by June 2022 Nationwide should've stopped providing the overdraft to Miss S on the existing terms and treated her with forbearance. Instead, whilst Nationwide did email Miss S at times, more interest, fees and charges were applied to her account.

I understand there was industry guidance at play during the pandemic that limited some of Nationwide's options, including the ability to withdraw the overdraft. And I can see that various emails were sent to Miss S concerning the status of her account. I'm aware that the guidance issued by the Financial Conduct Authority said lenders shouldn't reduce or withdraw an overdraft facility where it would cause financial hardship to the customer. But I'm not persuaded that meant Nationwide wasn't able to review Miss S' account and consider whether to continue offering it on the same terms or provide another form of support.

I've taken the relevant CONC rules and guidance, which should be well known to Nationwide, into account when considering the type of support it could have offered. Whilst it may not have been in Miss S' interests to have removed the overdraft facility in June 2022, I'm satisfied there were other options. If Nationwide thought Miss S was experiencing financial difficulties and wasn't able to remove the overdraft, it didn't mean it had to continue applying interest, fees and charges to the outstanding balance in the same way it had previously done. Here, despite identifying Miss S' overdraft usage had become unsustainable as early as January 2022 (and with more certainty by June 2022), Nationwide's approach was to continue to apply interest fees and charges and send emails. I'm not persuaded that was a fair approach.

So whilst I accept it may not have been appropriate to withdraw the overdraft facility at that time, I'm satisfied there were other options to support Miss S available to Nationwide.

Whilst I can see Nationwide did attempt to engage with Miss S and didn't receive responses, I think there should've come a point where it shouldn't have continued to rely on receiving a response to step in. In my view, by allowing Miss S to continue operating her overdraft in the same way and incurring further costs as a result, when all the information Nationwide had suggested she was already struggling, impacted her overall situation negatively. Having considered all the available information, I think Nationwide acted unfairly by not taking reasonable steps to provide support to Miss S from June 2022, when it ought to have realised she was relying on the overdraft to meet everyday living expenses and would struggle to repay the outstanding balance in a without causing additional hardship. In my view, a fairer approach would've been to stop applying interest, fees and charges to Miss S' account from June 2022.

As I'm not satisfied Nationwide fairly applied interest, fees and charges to Miss S' overdraft balance from June 2022 I'm going to uphold her complaint and tell it to refund them.

My final decision

My decision is that I uphold Miss S' complaint and direct Nationwide Building Society to settle as follows:

- Re-work Miss S' current overdraft balance so that any additional interest, fees and charges applied (that haven't been refunded already) from June 2022 onwards are refunded

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 for this. If it considers it appropriate to record negative information on Miss S' credit file, it should backdate this to June 2022

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 charges from the date they were made until the date of settlement. If no outstanding balance remains after all adjustments have been made (if they were) then Nationwide should remove any adverse information from Miss S' credit file. †

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 1 April 2024.

Marco Manente
Ombudsman