

Complaint

Mr H has complained that Nationwide Building Society (“Nationwide”) irresponsibly provided him with a personal loan. He says that the loan was unaffordable and as a result shouldn’t have been provided to him.

Background

Mr H has also complained about a credit card and an overdraft which Nationwide provided to him. But we’ve looked at the complaint concerning these products separately. And I want to be clear in stating that this decision only concerns Mr H’s loan.

Nationwide provided Mr H with a loan for £6,000.00 in November 2021. This loan had an APR of 16.0% and the total amount to be repaid of £6,734.16, which included interest fees and charges of £734.16, was due to be repaid in 18 monthly instalments of £374.12.

One of our investigators reviewed what Mr H and Nationwide had told us. And she thought that reasonable and proportionate checks ought to have led Nationwide to conclude that this loan was unaffordable for Mr H. So she recommended that this complaint should be upheld.

Nationwide disagreed with our investigator’s assessment and asked for an ombudsman to review the complaint.

My provisional decision of 23 May 2024

I issued a provisional decision – on 23 May 2024 - setting out why I was not intending to uphold Mr H’s complaint.

In summary, I wasn’t intending to uphold Mr H’s complaint because I was satisfied that Nationwide carried out reasonable and proportionate checks and these suggested that the loan was affordable for Mr H.

Responses to my provisional decision

Nationwide responded to confirm that it had had no final points to add ahead of my final decision as it had already provided all of the relevant information to defend the case.

Mr H didn’t respond to my provisional decision or provided anything further for me to consider.

My findings

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

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

Having carefully thought about everything and in the absence of anything further to consider in response to my provisional decision, I'm not upholding Mr H's complaint. I'll explain why in a little more detail.

Nationwide needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, what this means is Nationwide needed to carry out proportionate checks to be able to understand whether Mr H could afford to make his repayments before providing this loan.

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 provide loans irresponsibly.

Nationwide says it approved Mr H's application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information from credit reference agencies.

In Nationwide's view all of the information it gathered showed that Mr H could afford to make the repayments he was committing to. On the other hand, Mr H has said he was already in struggling and couldn't afford this loan.

I've carefully thought about what Mr H and Nationwide have said.

I appreciate that Mr H doesn't agree with this. But in my view Nationwide did obtain a reasonable amount of information before it decided to proceed with Mr H's application. And this information does appear to suggest that the loan repayments were affordable for Mr H. What is also key to me is that Mr H said that he was going to use this loan to repay his existing debts.

Mr H does appear to have continued using his overdraft (and while he repaid his credit card it is unclear to me whether he went on to use this) and both Mr H as well as our investigator appear to have argued that this complaint should be upheld because of this. But Nationwide could only make a reasonable decision based on the information it had available at the time. It won't have known whether Mr H would go on to continue using his overdraft and credit card. So I'm satisfied that the proceeds of this loan could and should have been used to, at the very least, reduce if not clear Mr H's existing debts.

Additionally, as Mr H didn't have a history of obtaining funds from Nationwide and then failing to consolidate debts elsewhere in the way he committed to, Nationwide was reasonably entitled to believe that Mr H would be left in a better position as a result of this too. I've also considered what the investigator said about Mr H's usage of his overdraft. While it's fair to say that Mr H was using his overdraft, his usage of what was a £600 facility and which would, in any event, be cleared with the proceeds of this loan, does not persuade me that it was unfair or unreasonable for Nationwide to have provided this loan.

I accept that Mr H's actual circumstances may not have been fully reflected either in the information he provided, or the information Nationwide obtained. And as I've explained Mr H may believe that Nationwide acted unfairly because it failed to remove his overdraft after providing him with this loan.

But given the circumstances here, I'd expect Nationwide to have had a reasonable idea of Mr H's income and committed non-discretionary spending, which it did have as a result of the checks that it did carry out, rather than a complete review of his finances as the investigator suggested.

Mr H told Nationwide that he had little in the way of committed expenditure because he was living at home with parents. It's worth nothing that while our investigator said that Nationwide should automatically have checked Mr H's current account because he was a Nationwide customer, which is an argument I'm not persuaded by, in any event, there isn't anything in Mr H's current account statements which suggest that he had substantially higher regular non-discretionary living costs than what he declared.

For the sake of completeness and with a view to providing Mr H with some reassurance, it may help for me to explain that Mr H's overdraft complaint will have covered whether he ought to have been allowed to keep the facility after he was provided with this loan. So I don't think that any arguments in relation to Mr H's overdraft usage after the loan was provided are relevant in the context of this complaint. And more importantly, I don't think that these arguments are a reason for this complaint being upheld.

Overall and having considered everything, including the responses to my provisional decision, I'm satisfied that Nationwide didn't treat Mr H unfairly or unreasonably when providing this loan to him. In my view, it carried out reasonable and proportionate checks which suggested that the loan was affordable. So I'm not upholding Mr H's complaint.

I appreciate this is likely to be very disappointing for Mr H – especially bearing in mind the investigator's assessment initially indicated that his complaint should be upheld. But I hope he'll understand the reasons for my decision as well as why I disagree with the investigator and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained above and in my provisional decision of 23 May 2024, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 8 July 2024.

Jeshen Narayanan
Ombudsman