

The complaint

Mr and Mrs W complain about the overdraft facility on their Nationwide Building Society ("Nationwide") current account. They say Nationwide acted unfairly by increasing the credit limit up to £4,000 and then allowing its long-term use until they closed their account.

What happened

Mr and Mrs W have complained about the overdraft added to their account November 2007, and the increases to its limit in February 2008, August 2008, October 2008, September 2010, March 2011 and finally January 2012. They say that the overdraft was unaffordable for them and that it led to them "hardcore borrowing" over several years.

Nationwide said we couldn't look at whether it acted unfairly because Mr and Mrs W complained too late. One of our ombudsmen looked at everything provided and agreed that much of the complaint was made too late, including the decision in 2007 agreeing to the overdraft and all the limit increases between February 2008 and January 2012. But he was satisfied we could look at the ongoing affordability of the overdraft from June 2016 onwards, which is within six-years of Mr and Mrs W having made their complaint to Nationwide.

Mr and Mrs W's overdraft was revoked in 2018. When Nationwide revoked Mr and Mrs W's overdraft it sent them a letter stating that it was doing so because it was a responsible lender and it could only offer them an arranged overdraft if it believed it wasn't going to cause them money problems down the line.

Nationwide considered Mr and Mrs W's account activity between June 2016 and February 2020, when the overdraft was repaid and account closed. It thought the credits to the account were sufficient to support repayment of the overdraft facility. It had noted some returned direct debit payments but when it considered these in the context of the overall account activity, noting significant non-essential spending, it didn't think the returned payments suggested Mr and Mrs W could've been in financial difficulties. It also thought that Mr and Mrs W repaying between £500 and £1,000 a month after the overdraft had been revoked to clear the balance was another sign that they were not experiencing financial difficulties.

Our adjudicator considered the complaint. She concluded that Nationwide hadn't acted unfairly in allowing Mr and Mrs W to continue using their overdraft facility from June 2016 onwards. She didn't think the way the overdraft facility was used suggested Mr and Mrs W were experiencing financial difficulties, which should've prompted Nationwide to treat them differently.

Mr and Mrs W disagreed with our adjudicator and asked for an ombudsman to review their complaint.

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 must start by saying that I have also considered the time limits rules that apply to Mr and Mrs W's complaint. Having done so, I see no reason to depart from the conclusions reached by my ombudsman colleague about which parts of Mr and Mrs W's complaint I can and cannot consider. That is, I cannot look into the decision in 2007 agreeing to the overdraft facility nor the limit increases between February 2008 and January 2012. This leaves whether it was fair for Nationwide to have allowed Mr and Mrs W continued use of their overdraft from June 2016 onwards as the part of their complaint I can consider. Nationwide needed to review Mr and Mrs W's use of their overdraft facility. At the time in question, it was required to monitor their repayment record for any apparent signs of financial difficulty. And help where it may have been apparent Mr and Mrs W may have been experiencing difficulty.

I'm mindful that it has been widely accepted across the industry that overdrafts are high-interest products which were designed to cover short-term borrowing needs. Mr and Mrs W have used their overdraft over a long period of time. It is possible their repeat overdraft use was harmful if it were – as normally is the case - an expensive way to borrow.

But in Mr and Mrs W's case (and at the time in question), their account offered the first £250 of overdraft usage interest and fee free and it charged £0.50p a day for use of the agreed facility above the first £250. So, assuming Mr and Mrs W used the full £4,000 limit all year round – which they didn't – they would have been charged £183. This works out to be around 4.6% a year. I accept this cost would have increased as a percentage of the borrowing after Nationwide revoked the facility and reduced their limit in steps, and on those occasions Mr and Mrs W exceeded their limit. But overall, I think it represented an economical method of covering short-term borrowing needs.

I have carefully studied Mr and Mrs W's statements for their account. I think they took advantage of the low cost of borrowing to cover their short-term cashflow needs. I say this because their spending on the account wasn't solely for essential or non-discretionary spending. The account was well funded with regular credits from an umbrella company, an investment trading platform and other of Mr and Mrs W's accounts. There are some occasions Mr and Mrs W credited their account with several thousand pounds from these sources on a single day to cover larger items of expenditure, for example holiday bookings and school fees. Whilst I don't have a full understanding of Mr and Mrs W's financial position, these transactions make it difficult for me to say that they were experiencing financial difficulties. I think it is fair to say that Mr and Mrs W had sufficient means to meet their non-discretionary expenditure without *needing to* borrow more, despite their usage of the overdraft.

I note that there have been occasions that direct debit payments, including one to their mortgage lender, were returned unpaid. But I'm not persuaded these were a sign of Mr and Mrs W experiencing financial difficulties. I think they were more likely incidences of account management 'mishaps', given the pattern of funds crediting the account to cover known expenditure.

So, taking everything into consideration, I don't think Nationwide treated Mr and Mrs W unfairly or unreasonably during this period.

My final decision

For the reasons I've explained, I don't uphold Mr and Mrs W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W

to accept or reject my decision before 5 January 2024.

Stefan Riedel
Ombudsman