

The complaint

Mr W says that Nationwide Building Society (“Nationwide”) acted irresponsibly by providing him with an overdraft facility and allowing him to increase his overdraft limit to £2,000 when he was in an individual voluntary arrangement (“IVA”).

What happened

Mr W applied online and was agreed for an overdraft with a limit of £200 in July 2020. This was increased to £2,000 the following month.

Mr W complained that the overdraft lending was irresponsible and is unhappy that Nationwide wouldn’t offer a loan to pay back his overdraft. Nationwide says Mr W passed all its credit checks at the time of the lending and it hadn’t made any errors in allowing the overdraft facility. Nationwide says it is unable to offer Mr W a loan at present as he’d stopped paying back his overdraft.

One of our adjudicators looked into Mr W’s concerns and didn’t think Nationwide had made an error on its overdraft lending and was satisfied that Nationwide had carried out appropriate credit checks and that the lending was affordable based on the information Nationwide had. They hadn’t seen any evidence of Mr W being in an IVA and as Nationwide took action quickly when it became apparent Mr W wasn’t managing his account they didn’t think Nationwide needed to do anything more.

Mr W disagreed and asked for an ombudsman’s 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.

We’ve set out our general approach to complaints about irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Mr W’s complaint. Having considered everything provided, I’ve decided not to uphold Mr W’s complaint. I’ll explain why in a little more detail.

Nationwide needed to make sure 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 W would be able to repay what he was being lent before providing any credit to him. 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.

I've kept all of this in mind when thinking about whether Nationwide did what it needed to before agreeing to Mr W's overdraft. Mr W was given what was an open-ended credit facility. So overall this means the checks Nationwide carried out had to provide enough for it to be able to understand whether Mr W would be able to repay his overdraft within a reasonable period of time.

Nationwide says Mr W had an initial overdraft with a limit of £200 increasing to just over £2,000 the following month in August 2020. Nationwide says all overdraft and limit increase applications were fully credit scored taking into account information about how Mr W had managed his account with it as well as carrying out a credit check – a copy of which has been provided.

I can see that despite Mr W saying he was in an IVA that at the time Mr W applied for the overdraft and limit increase he had no adverse information showing up through the credit check Nationwide carried out and I haven't seen any evidence to negate this. I can also see from Mr W's bank statements that prior to the lending he was receiving healthy regular credits into his account which exceeded the overdraft limit he requested and had a healthy credit balance in the months leading up to the overdraft being granted and that the overdraft limit's he requested were within the affordable limit Nationwide had calculated for him. And based on this information Nationwide was satisfied his score was high enough to provide him with the overdraft facility and limits he requested.

I accept that Mr W's financial position may well have been worse than the credit checks carried out showed or in any information he disclosed to Nationwide at the time of his applications. And it is possible that further checks might have told Nationwide this. But Nationwide was reasonably entitled to rely on the credit check it carried out and the information Mr W provided it. And given there wasn't any adverse information shown on the credit check and his account showed a credit balance, I think Nationwide's checks went far enough.

So I don't agree that Nationwide acted irresponsibly by allowing Mr W an overdraft and agreeing to increase his overdraft limit. And considering the credits going into the account I don't think that it was unreasonable for Nationwide to conclude Mr W would be able to repay the additional funds within a reasonable period of time.

This means that I don't agree Nationwide provided Mr W with an overdraft unfairly or irresponsibly. That said, even though I don't think Mr W's overdraft was approved irresponsibly, Nationwide still won't have acted fairly and reasonably towards Mr W if it applied any interest, fees and charges to Mr W's account in circumstances where it was aware, or it ought fairly and reasonably to have been aware Mr W was experiencing financial difficulty.

So I've considered whether there were instances where Nationwide didn't treat Mr W fairly and reasonably. Mr W didn't start using his overdraft until the end of October 2020. The statements show that Mr W didn't use his overdraft to live on, but rather he used it to make two transfers out of around £2,000 in January and again in May 2021.

Following this point Mr W's no longer paid his salary into the account but continued to credit his account with transfers from another account. In August Mr W exceeded his overdraft limit and direct debits were now being regularly returned. Mr W stopped crediting or using the account in November 2021 and in response Nationwide closed off his account in March 2022 around four months later – which is in line with what I'd expect it to do.

So I don't think that Nationwide treated Mr W unfairly or unreasonably as up until August 2021 there didn't appear to be any signs of financial difficulty and as soon as Mr W stopped managing his account Nationwide took appropriate action quickly, which means that I'm not upholding this complaint.

My final decision

For the reasons I've explained, I'm not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 2 August 2023.

Caroline Davies
Ombudsman