

The complaint

Miss M complains that Lloyds Bank PLC (Lloyds) mis-sold her a loan.

What happened

In December 2014, Miss M took out a £25,000 loan with Lloyds over a 72-month term. In mid-2017, she told Lloyds she was struggling financially as her hours had been cut at work. It found that a repayment plan wasn't affordable for her, but offered a 30-day breathing space on her current account plus text alerts. In August 2017, her remaining loan debt was passed to another company (which I'll refer to as H). Miss M says that, since then, she's been repaying £20 per month.

In early 2020, Miss M complained to Lloyds that it had mis-sold the loan. She explained that she has a mental health condition which, as confirmed by her doctor, affects her ability to manage her money. She also said she'd felt forced to take out the borrowing; her income was too risky; and she shouldn't have been lent more than £10,000 – as she was charged a higher interest rate as a result.

Lloyds didn't uphold the complaint. It said it hadn't known about her diagnosis at the time of sale. But now that it did, it would write off the remaining debt – around £17,000. And it would put a block on her account to prevent any further lending for 12 months, which could be extended if needed.

Unhappy it hadn't returned all her payments, Miss M referred the matter to our service. Our investigator was satisfied with how the loan had been sold, given what Lloyds knew at the time. She didn't think it was fair to ask it to refund all Miss M's payments when she'd been able to use the money she'd borrowed. And she thought it had taken appropriate action once Miss M told it about her circumstances.

Miss M didn't accept this view. She was unhappy that Lloyds couldn't confirm what interest she would have been charged on a loan under £10,000. She said it knew she'd never have been able to pay back the loan. And that the borrowing caused severe financial difficulty, meaning she had to sell her home and downsize.

As this didn't change our investigator's view, Miss M requested that her complaint be reviewed by an ombudsman. So, it's now been passed to me for a 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.

Having done, so I agree with the conclusions our investigator reached. I'll explain why.

I've spoken to Miss M about what happened, and it's clear the situation has been very upsetting and stressful for her. I want to reassure Miss M that I've taken the sensitive circumstances of her complaint into account. Ultimately, what I'm deciding is whether Lloyds' actions were reasonable in the circumstances – and, if they weren't, what Lloyds needs to do to redress any resultant loss to Miss M.

Having considered Miss M's recollections and Lloyds' records of the loan application, I'm not persuaded Lloyds was – or should have been – aware of her diagnosis at that time. She's told us she didn't disclose her diagnosis to Lloyds until 2020. And based on my contact with Miss M about how her diagnosis affected her at the time, I don't think it would have been otherwise apparent to Lloyds. So, I don't think it could have reasonably taken Miss M's diagnosis into account when making its lending decision.

When Miss M did tell Lloyds about her diagnosis, I can see that it reviewed her situation and decided to write off all the remaining debt (around £17,000). With Miss M's agreement, it also put in place a 12-month lending restriction – which she's told me she's pleased with. I'm satisfied this shows Lloyds reacted appropriately and treated Miss M fairly when it became aware of her circumstances.

I know Miss M wants Lloyds to return the repayments she made. She says it should have known from the start that she'd never be able to repay the borrowing – and didn't factor in that she might lose her job. But I have to consider what would have been apparent to Lloyds at the time. Looking at the income and expenses Miss M disclosed during her application, I can see why Lloyds considered the lending affordable. And I'm not persuaded that, based on the information it had at the time, it should have reasonably anticipated that it would *become* unaffordable due to a change in her circumstances. So I'm not persuaded the loan was mis-sold on this basis either.

In any event, I agree with our investigator that Lloyds has already offered a fair remedy in writing off Miss M's remaining debt. I know Miss M disagrees. She says that, contrary to what our investigator said, she hasn't benefitted from the loan – in fact, it's worsened her position. For example, she's had to sell and downsized her home. I acknowledge how difficult this has been for Miss M, and I don't dispute what she's told us about the impact on her. But I'll explain below why I still consider Lloyds' response to be fair – given that it wasn't aware of her diagnosis until earlier this year (2020).

If we decide that a loan was mis-sold due to affordability, the financial remedy we normally award is a refund of the interest and charges on the borrowing. We generally wouldn't expect the lender to also write off or refund the principal borrowing that the customer has received and been able to use.

The notes from the time suggest Miss M intended to use the money for a new car and conservatory, various other home improvements, and to pay off her overdraft. Whilst I understand she wasn't (for example) able to go ahead with the conservatory, she's told us she did use around £7,000 to upgrade her car, and around £6,000 on a new central heating system. She also mentioned using some of the money to repay other borrowing. For example, I can see she did use it to pay off her £1,000 overdraft – which had a higher interest rate than her loan. She says that, in the end, she was using the borrowing to pay back the loan. But at the point Lloyds passed the debt on to H, she'd only paid back around £15,000 – compared to the £25,000 she'd received. And based on how much was written off when she complained, as well as how much she's told us she was paying to H, it seems she repaid less than £16,000 in total.

So, Miss M received £25,000 from Lloyds – and paid back less than £16,000. That means she's been able to use *more money* than she's paid back. I appreciate the impact the monthly repayments had on her. But she's effectively not had to pay any interest on her borrowing. And she's received almost £10,000 more than she's paid back. Given this, I'm not persuaded it would be fair to direct Lloyds to refund the money she repaid.

I note Miss M says she would have paid off the loan by now if Lloyds had lent her less than £10,000. But she wouldn't have been able to get the same use from the money, given what she received and what she's told us about how she used it. She also says that she would have been charged less interest on a smaller loan. That may be true – but it doesn't mean Lloyds was wrong to lend her more. Lenders have commercial discretion over the interest they charge in exchange for providing the money. The interest rate is generally related to the amount of risk the lender perceives. So even if less interest would have been charged on a smaller loan, that doesn't mean it can't or shouldn't charge more for higher borrowing. In any event, as noted above, I don't consider Miss M to have lost out – as she effectively didn't pay any interest on her borrowing.

Miss M says she didn't contact the bank with a specific amount of borrowing in mind. But the notes from the time suggest she did agree to the level of lending based on what she was planning on using it for. So overall, I'm not persuaded she was *forced* into taking out the lending – or to borrow more than she wanted.

I appreciate this will be disappointing for Miss M and I'm very sorry to hear about the impact this situation has had on her. Whilst I do acknowledge and empathise with how difficult this has been for her, I'm not persuaded Lloyds acted incorrectly or unfairly in the circumstances. So I don't find that its *errors* were the cause of this impact. I'm therefore not upholding this complaint. I hope this explanation helps Miss M understand why and allows her to find closure from this matter.

My final decision

For the reasons given above, my final decision is that I do not uphold this complaint about Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 6 October 2020.

Rachel Loughlin
Ombudsman