

The complaint

Mr M has complained that Lloyds Bank Plc (“Lloyds”) irresponsibly gave him a large overdraft limit. He says that Lloyds ought to have realised he was in significant debt and that he had a gambling problem, and that he would therefore struggle to repay the overdraft.

What happened

Lloyds gave Mr M an overdraft of £5,000 in February 2016 after Mr M applied for it online.

In 2020, Mr M complained that Lloyds irresponsibly lent to him. Lloyds didn’t think that it had done anything wrong and so didn’t uphold Mr M’s complaint about irresponsible lending, but it did pay him £150 compensation for some poor complaint handling. Mr M remained dissatisfied and referred his complaint to our service.

One of our adjudicators looked at this complaint and thought that the overdraft should not have been provided to Mr M given his circumstances at the time. Lloyds didn’t respond, so the complaint has been passed to me to decide.

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.

Lloyds needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Lloyds needed to carry out proportionate checks to be able to understand whether Mr M would be able to repay what he was being lent before providing any credit to him. We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. Our website also sets out what we typically think about when deciding whether a lender’s checks were proportionate. I’ve kept all this in mind when looking at Mr M’s complaint.

Lloyds has argued that when Mr M applied for his overdraft online it based its decision to lend to him on what he’d said about his income and expenditure and on its automated credit scoring process. It says Mr M had declared an income of £8,000 per month and that he had only limited outgoings, and that its credit scoring process didn’t flag any concerns so it was satisfied that Mr M would be able to comfortably support the overdraft limit. And, in these circumstances, it says it was reasonable to lend. Lloyds has also said that any gambling on Mr M’s account in the lead up to the overdraft increase was within reasonable limits.

I’ve carefully thought about what Mr M and Lloyds have said, but I’m not satisfied that Lloyds’ affordability checks were proportionate in Mr M’s circumstances. Specifically I’m concerned by the emerging pattern of Mr M using his overdraft to gamble in the months before the overdraft limit was agreed. A cursory look at Mr M’s statements show that he was gambling significant sums in the lead up to the overdraft application. I accept that he was also transferring large sums into his account – apparently from his business account – but I still think the way he was managing things should have given Lloyds cause for concern. For example, there’s instances of Mr M paying in large sums from his business apparently to

cover gambling transactions made on the same day, and there is clear evidence he was also using high cost lenders. I think it's also worth noting that many years earlier – in 2006 – Mr M had asked Lloyds for help with his account due to gambling problems he was having at that time.

While each of these points alone may not have been a cause for concern, I think if Lloyds had thought about the situation as a whole, as it ought to have done given that it was agreeing to provide a limit of £5,000 here, it could have identified that there was a significant risk Mr M might have struggled to sustainably repay his overdraft without undue difficulty or borrowing further.

Bearing this in mind, I think Lloyds should not have provided Mr M with a £5,000 overdraft in February 2016, and I think its decision to do so meant that it increased Mr M's indebtedness in a way that it ought to have realised was unsustainable or otherwise harmful.

So I think Lloyds treated Mr M unfairly, and he has had to pay additional interest and charges on credit he shouldn't have been provided with in the first place. So I think he lost out because of what Lloyds did wrong and that it needs to put things right.

Fair compensation – what I think Lloyds needs to do to put things right for Mr M

Having thought about everything, I think it would be fair and reasonable in all the circumstances of Mr M's complaint for Lloyds to put things right by:

- Reworking Mr M's current overdraft balance so that all interest, fees and charges applied to it after the overdraft limit was agreed in February 2016 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr M to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr M's credit file, it should reflect what would have been recorded had it not agreed the overdraft limit in February 2016.

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 Mr M along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Lloyds should remove any adverse information from Mr M's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr M a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr M's complaint. Lloyds Bank Plc should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 25 October 2021.

Sophie Mitchell
Ombudsman