

The complaint

Mr H complains that Lloyds Bank plc acted irresponsibly when it provided him with a loan and then increased the loan amount a few months later.

What happened

Mr H says Lloyds offered him a loan in September 2018. The loan amount was £7,000. He says at that time he already had an overdrawn current account and a credit card account with Lloyds. He says that less than six months later, Lloyds offered him a further £6,000.

Mr H says he shouldn't have been offered these loans. He says he was in financial difficulties and Lloyds should've been aware of this. He had already agreed special measures with another credit card provider. As a result of what happened he says he had to take payday loans to cover the payments to Lloyds. The matter has impacted negatively on his mental health. He complained to Lloyds.

Lloyds investigated his complaint. It said that when making its decision to lend to Mr H it used information it held on its records and information it collected from credit reference agencies. It used this information to determine Mr H's credit score. Lloyds said Mr H had told it about his income and expenditure. It used that information together with the other information it collected to satisfy itself that he could afford to repay the amount borrowed. It said there was no evidence of non-affordability.

Mr H didn't agree. He complained to our service.

Our investigator looked into his complaint. She thought there was no indication from Mr H's credit file that special measures were in place with another lender. The credit file showed that Mr H had been meeting his financial commitments on time and there was no adverse information recorded.

Our investigator did think that Lloyds should've made additional checks before granting the credit to Mr H. She looked at Mr H's current account for the period prior to the loan being granted. She wasn't provided with full details about how much money each month was being used for essential expenditure because Mr H had made transfers to other accounts. He hadn't been able to provide statements for those other bank accounts. So, she said she couldn't be satisfied that even if Lloyds had carried out proportionate checks its attention would've been drawn to the financial difficulty Mr H said he was experiencing.

Mr H didn't agree. So, the complaint was passed to me to decide. I issued a provisional decision in which I said:

What I've provisionally 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.

Mr H has complained about two loans that Lloyds provided to him:

September 2018 - £7000

January 2019 – (previous loan repaid) new loan for £12,417

When considering Mr H's complaint, I've looked firstly at the checks which Lloyds carried out before granting the loans. Lloyds is required under the relevant regulations to carry out reasonable and proportionate checks to satisfy itself that the borrowing can be repaid in a sustainable way.

Lloyds says it carried out checks with credit reference agencies. That gave it a picture of any other credit commitments Mr H had at the time and also what his repayment record was. Mr H provided us with a copy of his credit reference report. The report is dated March 2021 – so it doesn't give us a full picture of everything that might've been on Mr H's credit file at the date when the first loan was applied for.

I've looked at the credit file provided and I can see evidence of other credit commitments with a number of lenders at the date that the first and second loans were granted. But I don't see any evidence of any adverse information reported – apart from the instance that Mr H has told us about. He's referred us to a credit card account he had with another lender. He says it was in special measures from 2017.

I can see details of that credit card on his credit file. There had been missed payments in 2016, but there's also evidence that since that time regular repayments were being made and the debt was reducing. The account hadn't been defaulted. So, I don't think that the record about the credit card with the other provider, on its own, would've been enough to mean that Lloyds shouldn't have granted the loans.

I've then considered the other information Lloyds held about Mr H on its own records. He had a current account with it which had an agreed overdraft. So, I've looked at the operation of that account in the period prior to the date when each loan was granted.

There is evidence throughout the period of regular weekly payments into the account. So, Lloyds would've been able to rely on this information as evidence of Mr H's income. Mr H says he transferred funds from his current account to other bank accounts. He then used those other accounts to pay for his day to day expenses.

It isn't always necessary for a lender to ask for proof of expenditure. It can use statistical models to work out what a borrower's expenditure is likely to be. Lloyds says that's what it did for Mr H and based on that model it was satisfied there was sufficient disposable income each month to repay the loans. I've considered whether that was a fair and reasonable approach given the other information Lloyds had.

I've noted that during the three-month period prior to the first loan being granted the current account had been overdrawn – with no swings to credit despite the regular weekly credits. I've also noted that there was a high frequency of gambling transactions in June, July and August 2018 – which all added up to a fairly large amount relative to Mr H's income and the amount of his overdraft. Although there's no evidence Mr H told Lloyds he had a problem with gambling, I think the operation of the current account in the

three month period prior to the first loan was enough to have put it on notice that further checks were required here and that it wasn't proportionate to rely only on the statistical modelling. I'll comment further below about whether I think that might have led to a different outcome.

I've then looked at whether the position had changed before the second loan was granted. I can see that repayments were being made, on time, each month to repay the first loan. The current account remained mainly in a credit position during the period up to January 2019 with only some usage of the overdraft from time to time. There were regular swings to credit. I've also noted that in the three-month period prior to the second loan being granted there's no evidence that the current account was being used to fund gambling transactions. And, there's no evidence of any adverse information being reported at credit reference agencies on any of his other accounts.

Having considered everything here, I'm not currently persuaded that even if Lloyds had carried out additional checks before the loans were granted, it would've decided not to proceed. I'll explain why.

When thinking about whether additional checks would've meant Lloyds wouldn't have proceeded with the loans, I have taken into account the subsequent repayment history for both loans. As I mentioned above the first loan was repaid in line with the agreement. The second loan was also repaid in line with the agreement for over a year after the date it was granted. Although I can see missed payments in June 2019 and August 2019, all other repayments were made each month on time right up to around April 2020 – some 15 months after the second loan was drawn down. So, although Mr H thinks Lloyds should've known that the loans were unaffordable, I haven't found any evidence to show that, in practice, he couldn't afford the repayments. As I've said he continued to make the payments until around April 2020.

I've also looked at the conduct of Mr H's current account in the period after the second loan was granted. I can see the account did go overdrawn from time to time in 2019 and 2020 - but there were still regular credits to the account. And, although there were some gambling transactions – these were infrequent and for small amounts relative to Mr H's income.

I can see evidence of credits to the current account which appear to be the proceeds of borrowing from other sources. But, having looked at the information on Mr H's credit report, I haven't seen any evidence of adverse information being reported on any of this other borrowing in the period right up to the date of the credit report he's provided – March 2021. If, as Mr H says, the loans he was granted by Lloyds were unaffordable, I'd have expected to see evidence of this soon after the loans were granted in the conduct of his current account or the accounts he held with other lenders.

So, I'm not currently persuaded, on balance, on the basis of what I've seen that had Lloyds carried out additional checks at the time the loans were granted it would've decided the loans were unaffordable.

Having looked at everything I'm not currently satisfied Lloyds acted irresponsibly or unfairly when it granted the loans to Mr H. I don't intend to require it to have to do anything further to resolve this complaint.

My provisional decision

For the reasons given above my provisional decision is that I do not intend to uphold this complaint about Lloyds Bank plc.

Lloyds responded to my provisional decision. It said it had nothing further to add.

Mr H also responded to my provisional decision. He didn't accept what I'd provisionally decided. He said:

- Lloyds knew he'd had an arranged overdraft with it for over five years and hadn't paid it back. He says that means Lloyds should've known he couldn't repay the loan.
- Lloyds should've carried out further checks when the second loan was granted. He says if it had done that it would've realised that the second loan was not affordable.
- He'd borrowed £13,000 over a four-month period, and he gambled. He says this means he wasn't in control.
- Between September 2018 and January 2019, he hadn't mainly been in credit. He says there were more times he was in overdraft, rather than in credit, during that four-month period.

So, I now have to make 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.

I've thought about the comments Mr H made in response to my provisional decision.

In my provisional decision I did make reference to the conduct of the current account. I noted there was an arranged overdraft on the account. Mr H says because that arranged overdraft hadn't been repaid during the previous five year period, Lloyds shouldn't have granted him the loan.

The overdraft on Mr H's current account was an arranged overdraft. An overdraft is repayable on demand. There's no evidence Lloyds had demanded repayment of the overdraft during the previous five year period. In the absence of a demand Mr H wouldn't have been required to repay the overdraft. I've noted that in the period prior to the first and second loans, there'd been regular credits to the current account and, apart from a small number of occasions, the account was operated within the agreed limit. So, I don't think the fact the account had an arranged overdraft for a lengthy period of time, would, of itself, mean Lloyds shouldn't have granted Mr H a loan.

In my provisional decision, I said that I thought Lloyds should've carried out additional checks before the first loan was granted. I referred to the information Lloyds would've had about the operation of the current account and the gambling transactions on it. But, after considering everything, I said that I didn't think, even if it had carried out additional checks, Lloyds would've decided the loans were unaffordable. I referred to the operation of the current account after the second loan was granted. And, I also took into account Mr H's credit file.

Mr H has commented about the operation of the current account during the period after the first loan was granted and before the second loan was made available to him. He says his account was more often in overdraft than in credit during that period.

It is the case that the arranged overdraft remained in place after September 2018. The account did remain in credit, apart from a small number of days, throughout October and November 2018. The overdraft started to be used more frequently in December 2018. But there were still regular credits being made to the account. And, although Mr H was using the overdraft, there were swings back to credit in both December 2018 and January 2019. The account remained within the arranged overdraft limit. I also noted there was no evidence the current account was being used to fund gambling transactions in the three-month period prior to the second loan being granted.

Having looked at the operation of the current account again, during the period between the first and second loan, I haven't changed my view. I'm not persuaded Mr H operated the account in a way that should've caused Lloyds to refuse to grant him a further loan.

Mr H hasn't commented on what I said in my provisional decision about his credit report. There was no evidence of adverse information being reported right up to the date of the credit report he provided to us (March 2021). If, as he says, the loans he was granted by Lloyds were unaffordable, I'd have expected to see evidence of this soon after the loans were granted. He was able, apart from two missed payments, to make the regular repayments on the second loan up to April 2020 (15 months after it was made available to him). And, despite other borrowing, his credit report shows no evidence of adverse information being reported on any of his other borrowing in the period up to March 2021.

Having thought about everything again, although I know it will disappoint Mr H, I haven't changed my view. I'm not persuaded Lloyds acted irresponsibly or unfairly when it granted the loans to him. I don't require it to have to do anything further to resolve this complaint.

My final decision

For the reasons given above I do not uphold this complaint about Lloyds Bank plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 12 April 2022.

Irene Martin
Ombudsman