

## **The complaint**

Miss B complains that Bank of Scotland plc trading as Halifax lent irresponsibly when it approved a loan.

## **What happened**

Miss B was an existing customer of Halifax and had current accounts with associated overdrafts as well as a loan when she applied for a second loan in February 2015. Halifax's application recorded that Miss B was employed with an income of £2,300 a month. Halifax used outgoings of £300 a month. Miss B had one dependent.

Halifax referred the application for further checks but went on to approve a loan for £7,000 over 60 months with a payment of £188.58.

In 2016 Miss B contacted Halifax and explained she'd had to give up work to look after a family member. Halifax agreed to accept reduced payments until July 2018 when the account was referred to its recoveries team and interest was suspended.

Last year Miss B complained that Halifax had lent irresponsibly when it approved both loan applications. Halifax sent Miss B a final response but didn't uphold her complaint. Miss B referred her complaint to this service and it was passed to an investigator. They said we couldn't consider Miss B's complaint about the first loan she took out in 2014 because of the time limits noted in our rules. But the investigator upheld Miss B's complaint about the second loan.

Halifax asked to appeal and said it had carried out proportionate checks and relied on the information Miss B provided in her application. As Halifax asked to appeal, Miss B's complaint has been passed to me to make a 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.

As our investigator has said, we can't look at the loan Miss B took out in 2014 because of the time limits in our rules. In this decision, I'm going to look at the loan Halifax approved in February 2015.

Before agreeing to lend, the rules say Halifax had to complete reasonable and proportionate checks to ensure Miss B could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and

- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate.

I've looked at Miss B's circumstances at the time she completed the loan application. I can see that, at this point, Miss B had current accounts with Halifax. I've seen statements for two accounts that have overdraft facilities in place. One overdraft was £4,300 and the other was £700. In addition, Miss B had taken another loan out with Halifax in 2014, a year earlier. That loan was for £8,000. So at the point of Miss B's application she owed around £12,000 to Halifax.

I've looked at the information included in the application and can see Halifax used an outgoing's figure of £300. But I'm not persuaded that was a realistic figure for all Miss B's outgoings. The monthly overdraft fees and Miss B's existing Halifax loan repayments would've taken up a large portion of that figure. I can't see anything that shows Halifax considered general outgoings like rent, food, transport, childcare and utilities etc either.

We recently asked Halifax to provide evidence of the information it found on Miss B's credit file in February 2015 but it's been unable to supply it. So whilst Halifax has told us it checked Miss B's credit file it hasn't provided evidence to support what it found.

Taking all of the available information into account, I think Halifax should've carried out better checks before approving Miss B's loan in February 2015. Options like reviewing Miss B's bank statements or obtaining further evidence of her income and outgoings could've been used to verify whether another loan as sustainable.

Halifax has told us Miss B's income was higher than the figure she declared on the application. Halifax has provided running totals of the months preceding Miss B's loan. I've looked at the bank statements provided but didn't find a clear picture of Miss B's income. Whilst there are lots of transfers that, added together, exceed £2,300 a month at points, I'm not persuaded calculating Miss B's income figure is that simple. I note that many of the transfers appear to be between Miss B's Halifax accounts. In addition, Miss B has explained that some of the funds received into her account were intended for her daughter's care and not income. Whilst Miss B may've been working at the time of her application, I don't think the level of income was consistent or straight forward.

I think Halifax should've done more to check Miss B's regular income and outgoings before approving her loan in February 2015. Had it done so, I'm satisfied Halifax would've found Miss B had become reliant on credit to make ends meet and wasn't in a position to sustainably repay further borrowing. In my view, Halifax lent irresponsibly when it approved Miss B's loan. As a result, I'm going to uphold Miss B's complaint and direct Halifax to refund all interest, fees and charges applied to Miss B's loan from the date it was approved.

I don't think it would be fair for Halifax to record adverse information on Miss B's credit file when it lent irresponsibly. So I'm also going to tell Halifax to remove all adverse information recorded about Miss B's loan from her credit file.

For the reasons given above, I'm upholding Miss B's complaint.

### **My final decision**

My decision is that I uphold Miss B's complaint and direct Bank of Scotland plc trading as Halifax to settle as follows:

- Refund all interest, fees and charges applied to the loan from inception to date
- The refund should be used to reduce any remaining balance. If a balance remains once the refund is applied Halifax should ensure it isn't subject to future interest
- If the refund results in a credit balance, Halifax should refund it to Miss B with 8% interest from the date the surplus occurred to the date of settlement
- Remove all adverse information recorded about the loan from Miss B's credit file

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 3 June 2022.

Marco Manente  
**Ombudsman**