

The complaint

Mrs O complains that Lloyds Bank PLC (“Lloyds”) irresponsibly provided her with credit she couldn’t afford.

What happened

Lloyds approved Mrs O application for a credit card with a limit of £1,500 in 2015. They subsequently increased the limit on the card to £2,000 in November 2015 and to £2,500 in June 2016.

Mrs O says that Lloyds didn’t complete adequate affordability checks and that if it had it would have noticed the credit wasn’t affordable for her.

Lloyds didn’t agree. It said it used information it already knew about Mrs O and information provided to them by the credit reference agencies when considering if the credit card was affordable. They noted that Mrs O had declared an income of £12,000 per year and had explained that she had no rent/housing costs and no dependants. They said they estimated Mrs O’s daily living costs using data from the Office of National Statistics (ONS) but saw no reason to suggest the initial credit would be unaffordable.

They also explained that Mrs O’s credit card account was in good standing when they increased her credit limits and she’d not missed payments. They didn’t think there were signs of financial distress until Mrs O contacted them in late December 2016 to explain her immigration status had changed and her and her husband were being asked to leave the country. At that point Lloyds stopped charging interest on the debt and subsequently defaulted it in early 2017 when payments weren’t received.

Our investigator didn’t think the decision to provide a credit card was wrong, but she did think that Mrs O’s account was showing signs of financial distress before the first credit limit increase and she therefore suggested Lloyds should refund interest and charges from that point.

Mrs O disagreed and wanted the default removing from her credit file. The complaint has therefore been passed to me, an ombudsman, 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I’ve had this approach in mind when considering what’s fair and reasonable in the circumstances of this complaint.

Account opening.

Before approving the credit card, I think Lloyds gathered a reasonable amount of evidence and information from Mrs O about her ability to repay. I say this because it completed a credit check and gathered information from Mrs O to ascertain her income and her housing costs. It also used statistical data to establish what Mrs O's expenditure was likely to be and considered what it already knew about Mrs O from the current account she held with them. Given the relatively modest credit being provided I don't think it had to verify the income Mrs O had stated. I think the checks were proportionate but that doesn't automatically mean Lloyds made a fair lending decision. So, I've thought about what the evidence and information showed.

Mrs O says Lloyds should have noticed her living expenses were incorrect, but I can see from the current account statements at the time of application that where Mrs O was paying rent out of her account an equivalent amount was being paid in from what appears to be a family member's account. I think that would have supported Mrs O's statement that her rent/housing costs were zero and, whilst the current account didn't have a high balance, it also wasn't being used much. Lloyds had been informed by Mrs O that she was married so I think they could have fairly assumed that her partner was making contributions towards living expenses.

Mrs O's income wasn't being paid into her current account with Lloyds so I don't think it would have been apparent that what she had told them about her earnings was wrong.

I think the decision to open the credit card account was therefore fair.

The November 2015 limit increase

The credit limit was increased to £2,000 in November 2015.

Lloyds has said that due to the time which has passed, it is unable to evidence the internal checks it completed before it made the decision to increase Mrs O's credit limit. It's said it offers a credit limit increase only after assessing the consumer's creditworthiness and affordability using a combination of external credit reference agency data and internal behavioural data.

Lloyds have advised that when it thought about whether to offer Mrs O an increased limit there were no missed or late payments on her account.

I don't think Lloyds have been able to demonstrate that they carried out proportionate checks because I haven't seen the results of the checks they say they conducted.

I haven't been able to rely on a copy of the credit file the business would have seen at the time as they haven't provided one and neither has Mrs O.

So, I've thought about the limited information I *have* got. I've reviewed the current account statements and the credit card history.

I think there was evidence at this time that Mrs O was experiencing financial difficulties. She'd been using her credit card to buy essential goods such as groceries and I don't think she would have done that if the cash was already available to her as the credit card payments were expensive. There was also evidence from her card transactions that she was using the credit to pay another credit card and to make payments to her current account. I think that suggests some financial distress.

I don't think Lloyds needed to look any further than that, I think the evidence it had available to it suggested that increasing Mrs O's indebtedness any further was unwise and unaffordable.

There were similar transactions on Mrs O's account before the June 2016 increase and I think that limit was therefore also unaffordable for Mrs O and shouldn't have been provided.

The default

Mrs O says Lloyds were unreasonable when defaulting her account and she wants them to remove the default from her credit file.

When the account was defaulted Mrs O owed significantly more than the refund I'm asking Lloyds to make (below) and even if Lloyds hadn't made those charges I think Mrs O would still have been in default.

Lloyds had an obligation to report missed payments and defaults accurately and as payments had been missed on the account and the situation hadn't been rectified I don't think they were unreasonable to default the account or report that default to the credit reference agencies. I'm not asking them to remove the default from Mrs O's credit file.

Putting things right

As I don't think Lloyds should have increased Mrs O's credit limit beyond £1,500, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mrs O has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, Lloyds should:

- Refund all interest, fees, charges, and insurances (which have not already been refunded) that have been applied to balances above £1,500.
- Add 8% simple interest per year* calculated from the date of each overpayment to the date of settlement.

*If HM Revenue & Customs requires Lloyds to deduct tax from any award of interest. It must give Mrs O a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold this complaint in part and instruct Lloyds Bank PLC to put things right in the manner I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 26 September 2022.

Phillip McMahon
Ombudsman