

The complaint

Mr U says that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by approving an overdraft for him when he had a gambling addiction. He says the charges he incurred for this were unaffordable and caused financial difficulty.

What happened

Mr U applied for an overdraft online in July 2018 and was approved with an overdraft limit of £300. In November the same year Mr U informed Lloyds he had a gambling addiction. Lloyds cancelled the overdraft and issued Mr U with a cash only card and put a strict flag on his account and told him he must call in again after 12 months if he wished this to stay on.

In October 2020 Mr U applied and was approved for another overdraft with a limit of £250.

Mr U complained to Lloyds that it never should have granted him with an overdraft. Lloyds said all the checks were carried out correctly and based on the information Mr U provided it agreed to the overdraft requested.

Mr U was dis-satisfied with this and brought his complaint to this service. One of our adjudicators looked into Mr U’s concerns and didn’t think Lloyds had done anything wrong or treated Mr U unfairly.

Mr U disagreed and the complaint was passed to an ombudsman 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.

We’ve set out our general approach to complaints about irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Mr U’s complaint. Having considered everything provided, I’ve decided not to uphold Mr U’s complaint. I’ll explain why in a little more detail.

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 U would be able to repay what he was being lent before providing any credit to him. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate.

Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship. But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty.

I've kept all of this in mind when thinking about whether Lloyds did what it needed to before agreeing to Mr U's overdraft. Mr U was given what was an open-ended credit facility. So overall this means the checks Lloyds carried out had to provide enough for it to be able to understand whether Mr U would be able to repay his overdraft within a reasonable period of time.

Mr U first applied for a £500 overdraft in July 2018 and on the same day he dropped the limit to £300. All applications were fully credit scored taking into account information Mr U provided about his income and expenditure as well as information held by other lenders provided through credit reference checks. And based on this information Lloyds was satisfied his score was high enough to provide him with the overdraft limit and facility he requested.

I accept that Mr U's financial position may well have been worse than the credit check carried out showed or in any information he disclosed to Lloyds at the time. And it is possible that further checks might have told Lloyds this. But given the relatively low amount of credit being advanced and that his monthly income and expenditure showed a surplus of more than the overdraft limit I think Lloyds's checks went far enough and it was reasonably entitled to rely on the credit check it carried out.

Mr U is also unhappy Lloyds provided him with an overdraft in 2020 after he had notified it of his gambling addiction in 2018. But I can see Lloyds did take immediate action when notified of this by cancelling his overdraft and putting a strict flag on his account for 12 months asking Mr U to get in touch after this period if he wanted to keep it in place.

But as Mr U didn't get in touch the flag was removed. This overdraft application was made online and went through the same credit scoring as his previous one and as Mr U was managing his account well with regular credits coming into his account Lloyds agreed to provide him with another overdraft with a relatively low limit of £250. So I don't think Lloyds provided Mr U with an overdraft unfairly or responsibly.

That said, even though Mr U's overdrafts weren't provided irresponsibly, Lloyds still won't have acted fairly and reasonably towards Mr U if it applied any interest, fees and charges to Mr U's account in circumstances where it was aware, or it ought fairly and reasonably to have been aware Mr U was experiencing financial difficulty.

So I've considered whether there were instances where Lloyds didn't treat Mr U fairly and reasonably. I don't think that Lloyds did treat Mr U unfairly or unreasonably though. I say this because having looked at Mr U's statements I can't see anything to suggest that Lloyds ought to have realised he might have been experiencing financial difficulty prior to it being notified of this.

The statements show that Mr U did use his overdraft, but that in itself isn't enough to show that Lloyds ought to have known Mr U was in financial difficulty. Mr U was receiving regular credits into his account that at times brought his account into credit and if not into credit significantly reduced it. I accept that Mr U did have some returned payments, but I can see large transfers being made to another of his accounts which contributed to this. I can also see that although some bills were being paid from the account there was just as many non-committed, non-contractual and discretionary transactions.

Again, this doesn't necessarily mean Mr U wasn't experiencing financial difficulty. But I don't think there is enough here which ought to have alerted Lloyds to any potential financial difficulty before Mr U got in touch. And in these circumstances, I don't think that it was unreasonable for Lloyds to proceed with adding the interest, fees and charges it did.

So I don't think that Lloyds treated Mr U unfairly or unreasonably and this means that I'm not upholding this complaint.

My final decision

For the reasons I've explained, I'm not upholding Mr U's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr U to accept or reject my decision before 1 December 2022.

Caroline Davies
Ombudsman