

The complaint

Mr D complains that Lloyds Bank PLC (“Lloyds”) irresponsibly lent him money on several financial products he took out with them.

What happened

Mr D is a customer of Lloyds.

In August 2021, Mr D complained to Lloyds as he believed, among other things, that they did not help him with his repeated usage of his overdraft facility. He also thinks they mis-sold him a credit card and forced him into financial difficulties by giving him a loan. Mr D believes he has been made to pay charges on these products for the last 10 years despite repeated attempts to get help from Lloyds.

Mr D would like all his charges back, plus interest on the financial products he has taken out with Lloyds.

Lloyds responded to Mr D, referring to six products he had taken out with them. These consisted of 4 loans, 1 credit card, and 1 overdraft facility.

I have already commented in a separate decision on four of the products Mr D had taken out with Lloyds and explained why I don’t think I could look into them. So I won’t be providing any further comments to those here.

In relation to the two remaining products Mr D took out with Lloyds, one loan of £1,408.35 was arranged in February 2016 for 12 months, making monthly repayments of around £134. Another loan of £1,600 was taken in August 2019 for 37 months, making monthly repayments of around £50. Lloyds say the August 2019 loan was arranged by their refinance team.

Lloyds said that they completed checks to see if Mr D could afford to repay them. They say they did this by using Mr D’s monthly income or take home pay and deducting living costs as well as any debt he may have already had. They say they also rely on information from credit reference agencies and after reviewing all the information, Mr D passed their checks, which is why they agreed to lend him the money on both occasions.

So, Lloyds say as there had been no banking errors regarding the lending of the loans, they are unable to refund any interest or charges.

Mr D, unhappy with Lloyds response, referred his complaint to our service.

Our investigator found that in relation to the two loans, she didn’t think there was enough evidence to say that Lloyds conducted reasonable and proportionate checks to satisfy itself that Mr D would be able to repay them in a sustainable way. But she did believe that if reasonable and proportionate checks were completed, it would not have shown that Mr D wouldn’t have been able to repay the loans in a sustainable way. She says she reached this conclusion as both loans were to refinance existing debt; and for the August 2019 loan, Mr D

had completed an affordability plan for six months prior to taking it out. Mr D was able to keep up with those payments – and this suggested the loan was affordable.

Mr D disagreed with the investigator's findings. As he disagreed, the complaint has been passed to an ombudsman to decide.

I issued a provisional decision on 16 January 2023 where I explained why I intended to not uphold Mr D's complaint. In that decision I said:

“Based on what I've seen so far, I don't intend to uphold this complaint and I won't be asking Lloyds to do anything further. I'll explain why below.

If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual point or argument to be able to reach what I think is a fair outcome. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

We've set out our approach to unaffordable/irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach while deciding Mr D's complaint.

Lloyds needed to make sure it didn't lend irresponsibly. This means it needed to carry out proportionate checks to satisfy itself that Mr D could afford to repay the amount it was lending. A proportionate check is dependent on a number of factors including – but not limited to – Mr D's particular circumstances (e.g. his financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit obtained.

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 that information – 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, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay. I've carefully thought about what this means for Mr D's case.

In this case, Lloyds lent to Mr D on two occasions. Lloyds says it agreed to Mr D's applications after carrying out credit searches and taking some income and expenditure information. On the other hand, Mr D says Lloyds didn't offer any assistance and could see his incomings were not getting him out of the position of having debt.

February 2016 loan – were reasonable and proportionate checks completed?

The loan was taken out online and the purpose of it was recorded as purchase of a 'car'. It was also used to refinance an existing loan Mr D had at the time. The amount borrowed was around £1,400.

I can't see that a credit search was completed by Lloyds at the time and Lloyds hasn't provided copies of any searches that might have been completed. But Lloyds has provided details of Mr D's declared income and expenditure for the February 2016 loan application and which they say they relied on when deciding to approve the loan. They say Mr D's disposable income met their criteria and no issues were identified.

As I can't see a credit check was completed, I don't think reasonable and proportionate checks were completed at the time this loan was approved, as it may have shown something Lloyds should have considered when thinking about lending to Mr D.

So I've gone on to consider whether reasonable and proportionate checks would have shown that Mr D wouldn't have been able to repay the agreement in a sustainable way.

Having seen Mr D's statements in the lead up to the loan being provided, I don't think there was anything concerning during that period. There wasn't anything in Mr D's transactions, which contradicted the income and expenditure figures Lloyds say they had used as they were broadly similar.

Given the monthly repayment amount of the loan being around £134; Mr D's income stated as £1,500; and his expenditure at the time being around £400 a month, I think it was fair to conclude the repayments looked like they should've been affordable for Mr D based on the information he gave Lloyds.

August 2019 loan – were reasonable and proportionate checks completed?

This loan was recorded as 'refinancing', and Lloyds say it was also used to absorb an existing Lloyds debt. Given it was for around the same amount as Mr D's outstanding balance on his overdraft at the time it was taken out, I'm satisfied that it was for debt consolidation. The loan was for £1,600.

For this loan, it is disappointing that Lloyds hasn't been able to provide Mr D's income and expenditure details. They also say these loans aren't assessed or granted via credit scoring. Lloyds say their refinance team completed an income and expenditure with Mr D and it produced a deficit.

But Lloyds say Mr D agreed the repayment terms for this loan with their refinance team and they say Mr D reassured them that his income was flexible enough to be able to afford making the repayments.

As I don't have sight of an income and expenditure report being completed, or credit searches being made, I don't think reasonable and proportionate checks were completed at the time this loan was approved.

So I've gone on to consider whether reasonable and proportionate checks would have shown that Mr D wouldn't have been able to repay the agreement in a sustainable way.

Allowing for the fact the August 2019 loan was taken out for debt consolidation – in other words, Mr D said he would use the loan to repay existing debt – Lloyds worked with Mr D and put in place an affordability plan for the preceding 9 months. Mr D was also consistently able to repay the amounts required in the affordability plan. So I think Lloyds were reasonably entitled to take a view that Mr D was borrowing specifically to help manage his finances more responsibly and it looked like he ought to be able to afford to do so on the figures it had worked out.

So I think it was fair to conclude that the loan repayments looked like they should've been affordable for Mr D based on the information it had gathered.

Did Lloyds act unfairly or unreasonably in some other way?

I've also looked at whether Lloyds was aware or ought to reasonably have been aware, that Mr D could be in financial difficulties by reviewing his use of his account. And if so, whether it was appropriate for Lloyds to apply any interest, fees and charges.

Once a lender is aware a borrower is experiencing financial difficulty, we would expect it to exercise forbearance and due consideration, in line with its regulatory obligations. Ultimately, we'd expect a lender to listen to a borrower, get an understanding of their circumstances and then assess the most appropriate way to move forward.

Lloyds must also monitor their customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties.

February 2016 loan – did Lloyds do enough to support Mr D?

I can see from internal notes that Mr D made Lloyds aware of his difficulty to repay the February 2016 monthly instalments. I'm sorry Mr D found himself in financial difficulty. I accept at times Mr D may have had to go into his overdraft and also had difficulty paying his February 2016 repayments in some months. However, I also am mindful that the purpose of Mr D's loan was mainly to consolidate debt.

I've noted at times that Lloyds gave Mr D repayment holidays to help support him get back on track with his February 2016 loan and internal notes show they also refunded some charges for missed payments to give some breathing space. I'm satisfied Lloyds did enough here once they were aware Mr D had financial difficulties.

August 2019 loan – did Lloyds do enough to support Mr D?

One of the ways in which a lender can provide forbearance and due consideration is by refinancing existing debt onto more affordable terms. So in this case, I think it's fair to say that Lloyds supported Mr D by attempting to provide him with a consolidation loan in August 2019 so he wouldn't need to rely on his overdraft facility as often. Having reviewed the account statements, I'm satisfied the rescheduled terms were affordable to Mr D. And by rescheduling the debt, this would have prevented further overdraft interest and fees being applied to the account. I'm satisfied Lloyds did enough here to support Mr D.

In order to uphold this complaint I have to be able to say a lender acted unfairly or unreasonably in some way. And, in this case, I don't think they had. I accept reasonable and proportionate checks may not have been completed by Lloyds in relation to the two loans taken out. But I think they made fair lending decisions based on the information it obtained. I'm also satisfied Lloyds responded to Mr D with forbearance and due consideration once it was aware that he was in financial difficulty.

I appreciate my outcome will be very disappointing for Mr D, but I hope that setting out the reasons as I've done will help explain how I've reached my intended decision and that he'll at least feel his concerns have been listened to."

I gave both parties the opportunity to send me any further information or comments they wanted me to consider before issuing my final decision.

Responses to the provisional decision

Lloyds didn't respond to my provisional decision.

Mr D responded but has provided comments to financial products I haven't considered as part of this 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 Mr D hasn't provided any specific comments in relation to the two loans I've considered above, I see no reason to depart from it.

My final decision

For the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 28 February 2023.

Ronesh Amin
Ombudsman