

The complaint

Mrs T has complained that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by agreeing an overdraft and increasing her limit. She says Lloyds acted unfairly by continuing to apply charges to her account when she was in financial difficulty.

What happened

Mrs T applied and was approved for an overdraft of £500 in July 2020. This was increased to £1,950 over the following 17 days. Mrs T complained to Lloyds that it acted irresponsibly by providing her with an overdraft. Lloyds didn’t agree that it had lent irresponsibly. It says Mrs T passed the checks it carried out and based on the information Mrs T had provided it there was no evidence to suggest that Mrs T couldn’t repay the lending requested.

Lloyds did however agree to refund all overdraft charges amounting to £373.61 from the overdraft review date and pay £40 compensation as it felt it should’ve removed Mrs T’s overdraft sooner.

Mrs T was dis-satisfied she referred the complaint to our service.

Mrs T’s complaint was considered by one of our adjudicators. They thought that had Lloyds carried out a proportionate check before it approved the overdraft lending it would’ve likely seen Mrs T was in an Individual Voluntary Arrangement (“IVA”) from around 20 months before her overdraft was approved and ought to have realised that it was unlikely Mrs T would’ve been able to sustainably repay the overdraft within a reasonable period of time. They thought Lloyds should refund any interest, fees and charges applied as a result of the overdraft from 7 July 2020.

Lloyds say it didn’t have anything on its system regarding the IVA and the information it had regarding the default wasn’t a cause for declining Mrs T’s application as it was outside its exclusion period.

So the case was progressed for an ombudsman’s 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.

Lloyds needed to make sure that it didn’t lend irresponsibly. In practice, what this means is it needed to carry out proportionate checks to be able to understand whether Mrs T would be able to repay what she was being lent before providing any credit to her. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate.

And in this case I’m in agreement with our adjudicator that I don’t think Lloyds checks went far enough. I say this as at the time the lending was approved Mrs T was the subject of an IVA and still is. If Lloyds had carried out the appropriate checks I think it is likely that this

would've showed up and Lloyds would've realised Mrs T would have difficulty repaying further lending.

And just having a cursory look at Mrs T's bank statements prior to the lending - although I accept there were transfers into the account for different amounts from another person - the only source of regular income appears to be in the form of child benefit and the large credits coming into the account were from student loans - which I don't think is enough to support an overdraft of almost £2,000.

So although Lloyds has accepted it should've removed the overdraft earlier and has compensated Mrs T for this in-line with what I'd recommend had I made this finding. I don't think Lloyds checks went far enough when it approved Mrs T for an overdraft in the first instance and I think Lloyds acted unfairly when it charged overdraft interest and associated fees from 7 July 2020. Lloyds ought to have realised that it was unlikely Mrs T would have been able to sustainably repay the overdraft within a reasonable period of time.

So I think that Lloyds didn't treat Mrs T fairly and she lost out because of what Lloyds did wrong.

Putting things right

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Mrs T's complaint for Lloyds to put things right by:

- Reworking Mrs T's current overdraft balance so that all interest, fees and charges applied to it from 7 July 2020 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mrs T to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mrs T's credit file, it should backdate this to 7 July 2020.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs T along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Lloyds should remove any adverse information from Mrs T's credit file.

† HM Revenue & Customs requires LLOYDS to take off tax from this interest. Lloyds must give Mrs T a certificate showing how much tax it has taken off if they ask for one.

My final decision

For the reasons I've explained, I uphold Mrs T's complaint against Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 13 April 2023.

Caroline Davies
Ombudsman