DRN-4005835

The complaint

Mr B complains that Lloyds Bank PLC ("Lloyds") lent to him irresponsibly when it gave him two loans that he says he couldn't afford.

What happened

Mr B took out an unsecured loan for £16,000 with Lloyds in May 2017. The loan was repayable over five years at a cost of £358.94 a month. In January 2018, Mr B took out a further loan for £1,000 over a period of 52 months at a cost of £31.69 a month.

Mr B says that Lloyds failed to conduct sufficient checks on his individual financial position. He thinks Lloyds was negligent in allowing him to take the loans. He asks that Lloyds pay back all interest and any charges he paid and to pay him compensation.

Our investigator didn't think Mr B's complaint should be upheld. Mr B disagreed.

Our investigator reviewed the further points Mr B made but concluded it didn't make a difference to their view. As Mr B didn't agree with the investigator's view his 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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Mr B's complaint.

Having done so, I have come to the same conclusion as that of our investigator. I will explain why I have reached this decision. Mr B makes many detailed submissions, all of which I have read and considered. I will only refer to those points which are relevant specifically to the matter of whether Lloyds did anything wrong when it gave him the loans.

Lloyds needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr B could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Mr B's income and expenditure.

Certain factors might point to the fact that Lloyds should fairly and reasonably have done more to establish that any lending was sustainable for Mr B. These factors include things like understanding Mr B's income, the total amount Mr B borrowed, and the length of time Mr B had been indebted. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that that the lending was unsustainable. For smaller sums and in the early days of a lending relationship it may be reasonable for Lloyds to have done fewer checks.

In Mr B's case, he already had an existing relationship with Lloyds, so it was able to review the conduct of his account and establish whether it considered the loan repayments to be affordable. Mr B applied for the loan online. He declared a monthly income of £1,950 and expenses each month of £900, including £300 for housing. Lloyds' own assessment applied living costs of £396 which brought the total expenditure it took into account to £1,296 a month. On this basis Lloyds assessed that Mr B had £654 each month left each month after essential expenditure was taken into account, which made the £359 monthly repayments for the loan appear to be affordable. Combined with credit checks which Lloyds says showed that Mr B had no defaults or County Court Judgements (CCJs) in the 12 months prior to the application. Lloyds says the totality of these checks showed that the loan was affordable.

I think Lloyds should have done more to check Mr B's circumstances given the size of the loan and the length of time over which Mr B intended to repay it. Mr B had an existing relationship with Lloyds, and he banked with it, so I think it was reasonable for Lloyds to have verified the information it had about his income and expenditure by reviewing these statements.

While I don't consider that Lloyds carried out reasonable and proportionate checks for this loan, this doesn't mean I should automatically uphold Mr B's complaint. I have to consider what Lloyds might have seen had it done these checks and whether that would have led to Lloyds acting differently if it had done so.

Looking at Mr B's bank statements for the three months preceding the application and taking an average of his income and essential expenses across those three months our adjudicator estimated that Mr B had a disposable income each month closer to £918. I haven't seen anything to suggest that is not a reasonable assessment.

Mr B says that he was in significant overdraft with Lloyds at the time and this should have shown that he couldn't afford the loan. I can see that Mr B did, indeed, have a large overdraft with Lloyds at the time. But this doesn't mean that his essential expenditure was higher, or his income was lower. His discretionary spending may well have been higher than his disposable income, but this wasn't something Lloyds could predict.

Mr B says he was vulnerable at the time – he was spending a lot of money on gambling and says he was an addict. However, in the three months prior to the application, Mr B had spent under £100 on gambling transactions that would have been visible to Lloyds. So I can't say that Lloyds ought to have not lent to Mr B on that basis.

Mr B says that he had multiple overdrawn accounts at the time. I have not seen evidence of any accounts other than the one with Lloyds. I asked Mr B to supply a copy of his credit file so that I could assess Mr B's overall borrowing, but he wasn't able to supply this.

Mr B has also pointed to the fact that Lloyds had declined to provide loans to him not long before he took out this loan. I think that supports my view that Lloyds needed to do more checks before it lent to Mr B, but ultimately it does not affect the outcome as Lloyds would likely have only seen the information I have set out above if it had done more checks.

Mr B took out a further loan about eight months later. His first loan was still active. Using the same principles about income and expenditure I have outline above it appears from the information provided by Mr B and the information gleaned by Lloyds from its own credit checks and expenditure assessment that Mr B would have been left with a disposable income of around £800 after the new repayments were of £31.69 were taken into account.

Our adjudicator considered – and I agree – that Lloyds ought to have verified the information it had about Mr B's financial circumstances. I say this because Mr B was applying for a relatively small amount given his income and he was borrowing it over a long period – 52 months. Lloyds knew that Mr B had only recently borrowed a significant amount.

In their own calculations, our adjudicator assessed that Mr B had a disposable income of around £565. I haven't seen anything to suggest this isn't a fair assessment. Mr B again explains that he was heavily indebted and was gambling heavily. Without a copy of Mr B's credit file I can't fairly say he was over-indebted. I can see he was heavily in overdraft, which Lloyds would also have understood. This supports my finding that Lloyds should have asked for more information before lending to Mr B again. But even if it had, I don't think it would have made a difference to its decision to provide the loan. I have no evidence Mr B was indebted elsewhere. Mr B says that he transferred money around accounts for gambling, including his first loan. But I haven't been provided with copies of transactions in other accounts other than his current account and I don't know what borrowing Mr B had elsewhere. Even if I think Lloyds ought to have done more to find out about Mr B's financial circumstances at the time, I don't know for sure what it would have seen.

Mr B had been gambling in the period between his first and second loans and this would have been visible to Lloyds if it had reviewed his bank statements. But the gambling was over a single day in June 2017 and a four-day period in July 2017. While he had lost a significant amount of money (a total of around £2,700 – around £300 more than the value of his overdraft at the time of his loan application) there is no evidence to support any assertion that Mr B's gambling was problematic (other than that he hadn't won) or that Mr B's gambling was out of control – I haven't seen evidence that Mr B gambled at all in the six months prior to taking the loan. So even if Lloyds had looked back far enough at Mr B's bank statements I don't think it would have considered Mr B's gambling to be out of control or that he was particularly vulnerable as a result of an addiction to gambling.

So, again, on the balance of probabilities and taking into account the information available to me, I think Lloyds didn't conduct reasonable or proportionate checks when it provided the January 2018 loan to Mr B. But even if it had done the checks I think would have been reasonable and proportionate I don't think it would have made a difference to the decision to lend to Mr B and I don't think that decision to lend to Mr B was unfair.

I understand that Mr B has been struggling financially. I understand that meeting the repayments has been difficult. But I am unable to fairly say that Lloyds acted inappropriately, so I do not uphold Mr B's complaint. It follows that Lloyds does not need to do anything further.

My final decision

I do not uphold Mr B's complaint and it follows that Lloyds Bank PLC doesn't have to do anything further

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 May 2023.

Sally Allbeury
Ombudsman