

The complaint

Mr B complains that Lloyds Bank PLC lent to him irresponsibly.

What happened

Mr B applied for a loan in April 2017. Lloyds approved the application and gave Mr B a loan for £5000 repayable over 84 months.

Mr B applied for a second loan in November 2017. Lloyds approved the application and gave Mr B a loan for £6000 repayable over 64 months.

Mr B complained that the loans were unaffordable, and that Lloyds should've realised this if it had carried out proper checks at the time. Lloyds didn't uphold the complaint. It said it had carried out reasonable checks and that the loans were affordable for Mr B.

Mr B wasn't happy with the response and brought his complaint to this service.

Our investigator looked at both loans. In respect of Loan 1, the investigator didn't think that Lloyds had carried out reasonable and proportionate checks but said that if these checks had been carried out, they would've shown that the decision to lend was fair. In respect of Loan 2, the investigator said he didn't think Lloyds had carried out reasonable and proportionate checks and he didn't think the lending decision was fair.

Lloyds didn't agree. It said that Mr B had used some of Loan 2 to repay his overdraft, which reduced the amount of income Mr B was using to repay unsecured debt.

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 approach to considering irresponsible and unaffordable lending complaint on our website. I've had this approach in mind when considering Mr B's complaint.

Lloyds needed to take reasonable and proportionate steps to ensure that it didn't lend to Mr B irresponsibly. This means it should've carried out reasonable and proportionate checks to satisfy itself that Mr B could repay the loans in a sustainable way. These checks could take into account a number of things such as the loan amount, the repayment amount, the term of the loan and Mr B's income and expenditure.

Loan 1

Mr B declared income of £1059 when he applied for the loan. He declared monthly housing costs of nil. Lloyds obtained information from a credit reference agency and used data it already held about Mr B to calculate his unsecured credit commitments. Lloyds used an internal model to estimate Mr B's essential living costs. Lloyds used all this information to calculate Mr B's net monthly disposable income as £759.

Lloyds has said that there's no requirement for it to obtain proof of a consumer's income. It said it relies on consumers to provide accurate information about their income and expenditure. There are circumstances where I think it's reasonable for a lender to rely on what a consumer has told it about his/her income. However, in other circumstances, it will be proportionate for a lender to carry out further checks to verify a consumer's income and expenditure.

In this case, Mr B was applying for a large loan over a long term. Mr B had declared a low income. Taking these factors into account, it's likely that any changes in Mr B's income would affect his ability to sustainably repay the loan. Because of this, I think it would've been proportionate for Lloyds to carry out further checks to verify Mr B's income and expenditure.

I've looked at Mr B's bank statements for the period prior to the loan to see what reasonable and proportionate checks would've shown. Based on what I've seen, Mr B declared his income and housing costs accurately. The statements show that Mr B was paying around £190 per month towards his existing credit commitments, and regularly used his overdraft facility. The amount that Mr B would've been repaying towards existing unsecured debt (including Loan 1) would've taken around 25% of his income. On balance, and because Mr B's other expenditure was low, I think the loan was affordable. It follows that I think the lending decision was fair.

Loan 2

Mr B declared similar monthly income as before. Lloyds carried out a credit search and calculated Mr B's unsecured credit commitments at £293 per month. It used an internal model to estimate his essential living costs as £357 per month. Lloyds used all the information to calculate Mr B's net monthly disposable income as £393.

I've already explained why I don't think these checks were reasonable and proportionate for Loan 1. I don't think they were reasonable and proportionate for Loan 2 for the same reasons. In addition to what I've already said about this, I can see that at the time Mr B applied for Loan 2, his overdraft facility with Lloyds had increased substantially from £1800 to £2800 and he was regularly using this. Taking into consideration that Mr B would've gone from owing Lloyds £6800 after Loan 1 to £13,800 after Loan 2, I think that such a significant increase in lending in a short period of time meant that Lloyds should've carried out further checks.

I've gone on to consider what reasonable and proportionate checks would've shown.

I've looked at Mr B's bank statements for the relevant period. These show that Mr B had received a large sum from his mother which he used to pay off some of his credit card debt. This suggests that Mr B had been struggling to repay his existing debt and had to borrow to repay it.

Loan 2 was repayable at £158 per month. This brought Mr B's total debt repayments to £451 per month. This was well over 40% of Mr B's net monthly income. We know consumers who use 25% or more of their income to service debt are more likely to struggle to repay.

For these reasons, I don't think Lloyds would've approved Loan 2 if it had carried out reasonable and proportionate checks. I've taken account of what Lloyds has said about Mr B using some of Loan 2 to clear his overdraft. However, I can't see that Lloyds knew (at the time of the application for Loan 2) that Mr B intended to do this. And even if Lloyds had known, I still think the decision to lend was unfair. This is because – even taking Mr B's overdraft out of the equation – the amount of his net monthly income he was using to repay debt was very high and made it unlikely that he would sustainably repay the loan.

Putting things right

I've explained why I think Lloyds acted unfairly when it approved Loan 2.

Mr B has had the benefit of the money, so I think its fair that he pays it back. Lloyds should:

Remove all interest and charges from Loan 2

Deduct the repayments Mr B has made from this sum

If this results in Mr B having paid more than he received for Loan 2, all overpayments should be refunded together with 8% simple interest calculated from the date the overpayments were made to the date of settlement. *

If any capital balance remains outstanding Lloyds should agree an affordable payment plan with Mr B

Once the original loan amount has been repaid, Lloyds should remove any adverse information relating to the loan from Mr B's credit file

*HMRC require Lloyds to take off tax from this interest. Lloyds must give Mr B a certificate showing how much tax has been taken off if he asks for one.

My final decision

My final decision is that I uphold the complaint. Lloyds Bank PLC must take the steps I've set out above.

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

Emma Davy
Ombudsman