

The complaint

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

What happened

Mr J applied for a credit card account in June 2009. Lloyds approved the application and opened the account with an initial credit limit of £2000. The credit limit was increased to £2550 in January 2010, to £3050 in June 2011, to £4050 in April 2012, to £5050 in June 2014 and to £5500 in October 2014.

Mr J complained that Lloyds had lent to him irresponsibly. He said that at the time he'd opened the account he was self-employed but deriving very little income, and that he'd used the credit card for gambling transactions.

Lloyds didn't investigate the complaint because it felt that it had been brought outside of the relevant time limits. This service subsequently decided that the complaint could be looked into.

Lloyds weren't able to confirm to this service what checks it had carried out when it opened the account and when it increased the credit limit. This is because Lloyds no longer holds any records in relation to the account due to passage of time. Lloyds isn't required to retain information indefinitely.

Our investigator partially upheld the complaint. He thought that the decision in June 2011 to increase the credit limit was irresponsible, as were the subsequent increases.

Mr J accepted the view but said that he felt he should receive compensation for the impact that the irresponsible lending had on him.

Lloyds said it didn't agree with the view but offered to resolve the complaint by refunding interest and charges incurred after 1 October 2014.

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

Before agreeing to lend, Lloyds needed to complete reasonable and proportionate checks to ensure that Mr J could affordably repay what was being lent to him. There's no set list of checks that a lender has to carry out. But lenders are required to have regard to things such as the amount being lent, the total amount repayable, the monthly repayments and the consumers individual circumstances when deciding what's reasonable and proportionate.

Because of the length of time which has passed since the account was opened and the credit limit increased, Lloyds hasn't been able to provide this service with details of the

checks it completed. So, it isn't possible for me to conclude that Lloyds completed reasonable and proportionate checks.

Instead, I've looked at what reasonable and proportionate checks would've shown.

Account opening – June 2009

Mr J has told this service that from the period prior to 2010 – 2015 he was self-employed. He's said that he didn't make very much money from his business and that he gambled on a daily basis.

I haven't seen any bank statements to support what Mr J has said about his financial circumstances at the time he applied for the credit card. Because of the limited information I've seen, I'm not in a position to say that the lending decision in June 2009 was unfair.

Credit limit increase – January 2010

I've reviewed Mr J's credit card statements for the period leading up to his credit limit increase. I can't see anything which suggests that Mr J was having problems managing the account. All of Mr J's payment were made on time and exceeded the minimum monthly payment. Sometimes Mr J paid off the balance in full. Based on what I've seen, I don't think Lloyds would've had any concerns about Mr J's management of the account.

Before increasing the credit limit, I'd expect a lender to carry out a credit search to check that the consumers unsecured debt hadn't increased to an unsustainable level, and to see how the consumer was managing other credit commitments. I haven't been able to look at the results of a credit search in Mr J's case because Lloyds hasn't been able to provide this.

Mr J has provided some bank statements from December 2009 onwards. I've reviewed these to see what they show about Mr J's other credit commitments at the time. I can see that Mr J was making payments to other creditors, but there was nothing to suggest that he was struggling to do this, or that his debt to income ratio was too high.

Based on what I've seen, I think the credit limit increase in January 2010 was affordable to Mr J.

Credit limit increase – June 2011

I've reviewed Mr J's credit card statements for the period leading up to the credit limit increase. In the months leading up to the credit limit increase, Mr J had exceeded the credit limit and incurred fees on 4 separate occasions. This is indicative of a consumer who has become overly reliant on credit and who isn't managing the account well. I think this should've promoted Lloyds to carry out further checks.

I can't be certain of what further checks Lloyds would've done. But I think it would've likely looked at Mr J's bank statements to verify his income and expenditure.

Mr J has provided his bank statements for the relevant period. These show that in the three months leading up to the credit limit increase Mr J spent almost £9000 on gambling. Whilst I can see that there were significant sums coming into the account, these appear to have been derived from gambling as well.

I've also looked at Mr J's credit card statements for the relevant period. These show that in the six months leading up to the credit limit increase, Mr J spent around £6500 on gambling.

If Lloyds had completed reasonable and proportionate checks, I think it would've been obvious that Mr J had a serious gambling problem which had caused him to become overly reliant on credit and had led to a situation where he wasn't likely to be able to sustainably repay any further lending.

For these reasons I don't think the lending decision in June 2011 was fair.

Credit limit increases in April 2012, June 2014 and October 2014

I've explained why I don't think the lending decision in June 2011 was fair.

I've looked at all the information available. There's nothing to indicate that Mr J's financial circumstances improved in a sustainable way between June 2011 and the later lending decisions. If anything, Mr J's financial circumstances got worse.

Because there's no evidence of a significant and sustained improvement in Mr J's circumstances, I don't think the later lending decisions were fair.

For the reasons I've given I uphold the complaint. The lending decision in June 2011, and all later decisions, were unfair.

Putting things right

Lloyds Bank PLC should:

Rework the account, removing all interest and charges applied to balance over £2550

If the rework results in a credit balance, this should be refunded to Mr J together with 8% simple interest per year calculated from the date of each overpayment to the date of settlement*. Lloyds should also remove any adverse information recorded after June 2011 regarding the account from Mr J's credit file

If, after the rework, the balance still exceeds £2550, Lloyds should arrange an affordable payment plan with Mr J. Once Mr J has cleared the balance, Lloyds should also remove any adverse information recorded after June 2011 regarding the account from Mr J's credit file

*HMRC require Lloyds to deduct tax from any award of interest. Lloyds must give Mr J a certificate showing how much tax has been taken off if he asks for one

I understand that Mr J feels that he should be awarded compensation for the distress caused to him by the irresponsible lending. I've thought about this, but this service doesn't generally award compensation in these types of cases. I think the removal of interest and charges as I've set out above is fair and reasonable redress in the circumstances of this complaint.

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 J to accept or reject my decision before 27 July 2023.

Emma Davy
Ombudsman