DRN-4249711

Financial Ombudsman Service

The complaint

Mr J complained that Lloyds Bank PLC ("Lloyds") irresponsibly granted him three personal loans (in 2018, 2019 and 2022) that he couldn't afford to repay.

What happened

In September 2018, Mr J took out a loan of £7,500 (account number ending 0808), over a term of 60 months, with a monthly payment of £137.55. In July 2019, he took out a further loan of £21,500 (account number ending 7835), again over 60 months, with a monthly payment of £413.12. Both of these loans were repaid in February 2021. Just under a year later, in January 2022, Mr J took out the third loan (account number ending 5311), this time for £20,000. Again it was over 60 months, and the monthly payment was £366.81.

I should say here that Mr J had another, earlier, loan with Lloyds (taken out in 2006), and although another ombudsman at this service determined that Mr J was within the time limits we have to apply in making his complaint about it, neither party could provide any details of the loan and therefore Mr J agreed that it would not be looked at further. So this decision is only concerned with the three loans detailed above.

In summary, Mr J told us that he had other loans and credit card debts when he took out the loans detailed above, and that he ended up with his outgoings exceeding his income, and this severely affected his mental health. He borrowed money from family members to repay his debts in 2021, and he increased his mortgage and took out the loan in January 2022 to repay them.

Lloyds said it had carried out appropriate checks before granting the loans, and told Mr J that it did not uphold his complaint. Mr J then brought his complaint to this service. Our investigator looked into it but didn't think it should be upheld. Mr J didn't agree, and asked for it to be reviewed by an ombudsman.

I issued a provisional decision earlier this month, in which I explained that I disagreed with our investigator's conclusions and proposed to uphold Mr J's complaint in part. Mr J responded to say he had nothing further to add. Lloyds said it accepted my conclusions.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided to uphold part of Mr J's complaint. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Lloyds completed reasonable and proportionate checks to satisfy itself that Mr J would be able to make the repayments on each loan account in a sustainable way.

In my provisional decision I set out my reasoning as follows:

"Lloyds sent in copies of Mr J's loan agreements, loan statements and his current account statements for the relevant periods. Mr J provided a copy of his credit report and information about his circumstances when taking out the loans.

Lloyds said that, when granting the loans, it took into account the information given by Mr J, what it already knew about him, and information from credit reference agency checks, which included credit scoring. It also said it completed checks about affordability, using Mr J's monthly income or take-home pay and deducting items such as his share of housing costs, any monthly minimum repayments on any debt he already had and an amount for day to day living costs. It said Mr J stated his monthly income and share of housing costs, and it then used information it held about him and from credit reference agencies to estimate the monthly minimum repayments on what he already owed. It estimated expected day-to-day living costs using data from the Office of National Statistics 'Family Spending Survey'.

Lloyds said Mr J passed all of its checks, which is why it agreed to lend him the money, and it was comfortable with the lending it provided to him.

There were three loans, so I've looked at each in turn.

<u>Loan ending 0808 (September 2018)</u>

Lloyds' records of the loan showed Mr J's monthly income as £2,600, and his mortgage payment as £1,050 (although Mr J's bank statements show slightly less than that at £1,016). I can see from Mr J's bank statements and credit report that he used most of the loan to pay down his credit card balance with Lloyds.

Mr J told us that he was responsible for the full monthly mortgage payment, and this is consistent with Lloyds' records. From what I can see on Mr J's credit report, at the time of taking out this loan, he had a Lloyds credit card with a £7,100 credit limit (held since 2016), and a balance which was virtually at the limit, and another credit card with another lender, with a limit of £1,600 (I have no information on the balance on that card).

He also had two personal loans with other lenders, with monthly payments totalling just under £500. One of these loans had been taken out only ten months earlier, and also used to pay down the Lloyds credit card, as well as clear the overdraft on his Lloyds current account - Mr J had previously been overdrawn for some while. So the credit card balance had increased back to the limit over that ten-month period, with Mr J only making minimum payments as far as I can see. I also note that Mr J had had a number of cash advances on the credit card in the months leading up to taking this loan.

His average income, based on his statements, was £2,500 over the preceding six months, although it looks as though in one of those months Mr J received a bonus, thus increasing the average. I note that Lloyds used an estimate for living costs (including things such as groceries) but what's on Mr J's bank statements looks higher.

On this loan, I'm not satisfied that Lloyds carried out proportionate checks – it seems to me that Mr J's borrowing behaviour ought reasonably to have prompted a more detailed review of his income and outgoings.

If Lloyds had done such a review, I think I would've shown that the monthly repayments on the new loan were unlikely to be sustainable. I say this because, taking account of the commitments detailed above (which seem to me to be higher than the figures used by Lloyds), the increase in the credit card balance over the ten months since the earlier loan, and the pattern of transactions on his current account (Mr J's balance was frequently very low just before being paid), I'm not satisfied that he was left with enough disposable income to manage those repayments sustainably. So I don't think Lloyds acted fairly in granting this loan to Mr J.

<u>Loan ending 7835 (July 2019)</u>

Mr J took out the next loan of £21,500 in July 2019. It was in addition to the loan described above, so this left Mr J with four loans overall – the two personal loans with other lenders, and two loans with Lloyds.

I can see from Mr J's credit report that, just before taking out this loan, he had also taken out a second credit card with Lloyds, with a limit of £6,300, giving him three credit cards in total. Part of the loan - £7,000 - was used to repay the balance on one of his credit cards, but the rest remained in Mr J's current account and was used over time.

Lloyds records showed Mr J's monthly income as £2,365, and mortgage payment as £600. However, Mr J said he was (as with the first loan) responsible for the full mortgage payment of just under £1,020 as Mrs J was on maternity leave at that point. That is consistent with what's on Mr J's bank statements and what was taken into account on the earlier credit card application.

Mr J's average income for the preceding six months, based on his statements, was £2,850 although again it looks as though Mr J received a bonus that increased the average.

Again, I'm not satisfied that Lloyds carried out proportionate checks when granting this loan. It was a relatively large amount taken out only ten months after the previous loan, and with another credit card only recently having been granted. So I think Lloyds should have carried out a more detailed review of Mr J's income and outgoings here too.

If it had done so, I think the repayments on this loan too would have shown as unsustainable. The mortgage payment was just under £1,020, and the existing loan repayments were £630. When added to an amount to cover repayments on the three credit cards, and an amount for living expenses, I can't see that Mr J would've been left with enough disposable income to sustainably cover the monthly payment of £413.12. So I don't think Lloyds acted fairly in granting this loan to Mr J.

<u>Loan ending 5311 (January 2022)</u>

The third loan of £20,000 was granted to Mr J in January 2022. He said that it was taken to repay family members after having borrowed from them the previous year to deal with his financial difficulties. I can see from Mr J's bank statements that in February 2021, large amounts were paid into his bank account, and then transferred out to repay the personal loans and the credit cards. The credit record shows all of these accounts as being closed at that time.

In January 2022, Lloyds' record of this loan showed Mr J's monthly income as £2,374 and mortgage payment as £625.

Mr J's bank statements show his monthly income as around £2,307. It seems that Mr J had increased his mortgage shortly before his application for this loan, so the monthly mortgage payment on the bank statements was just over £1,200. The mortgage was in joint names, but Mr J told us he was responsible for the full mortgage payment. Mr J's credit report and statements don't show any other credit cards or loans having been taken out since he cleared everything in February 2021.

On this loan, I think Lloyds' checks were proportionate. It was two and a half years after Mr J's previous loan application, and nearly a year since he had repaid all of his loans and credit cards. Mr J's current account was generally in credit. So I can't see that Mr J's circumstances would have prompted a more detailed review. I've taken account of Mr J's mortgage payment, in that, even if he was responsible for the full payment, I still think Mr J would have had enough disposable income, after considering living costs, to manage the repayments sustainably. So I don't think Lloyds did anything wrong in granting this loan."

I further said in my provisional decision that, having carefully considered all of the evidence and information, my conclusion was that Lloyds acted unfairly in granting the loans in September 2018 and July 2019, so I proposed to uphold Mr J's complaint with regard to these two loans. But I didn't propose to uphold his complaint about the third loan.

As I noted above, Mr J said he had nothing further to add, and Lloyds said it accepted my provisional decision. So on that basis I have no reason to change my conclusions and I am therefore upholding Mr J's complaint about the loans granted in 2018 and 2019, but not his complaint about the loan granted in 2022.

Lloyds asked that I direct that the compensation be applied to the current loan to reduce Mr J's borrowing. However, it has confirmed that there are no arrears on the loan, and therefore there is no reason for me to accept this request. So the compensation should be paid directly to Mr J.

Putting things right

I think it's fair and reasonable for Mr J to repay the capital that he borrowed in 2018 and 2019, because he had the benefit of that money. But he has paid interest and charges on loans that shouldn't have been provided to him. Lloyds must put this right, so it should:

- Refund all interest and charges Mr J paid on the loans granted in 2018 and 2019.
- As reworking Mr J's loan accounts in this way will result in him having effectively made payments above the original capital borrowed, Lloyds should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement.
- Remove adverse information (if any) recorded on Mr J's credit file in relation to the loans granted in 2018 and 2019.

*HM Revenue & Customs requires Lloyds to deduct tax from any award of interest. It must give Mr J a certificate showing how much tax has been taken off if he asks for one.

My final decision

I have decided to uphold Mr J's complaint about the loans granted in 2018 and 2019, but not the loan granted in 2022. Lloyds Bank PLC should pay Mr J the compensation I've described.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 18 August 2023.

Jan Ferrari
Ombudsman