

The complaint

Miss G complains that Lloyds Bank Plc (Lloyds) lent to her irresponsibly when it provided her with an overdraft. She has said it's affected her mental health and she would like the debt written off.

What happened

In May 2019 Miss G successfully applied for an overdraft on her Lloyds current account and was given an overdraft limit of £50 initially. Applications were then made by Miss G to increase the overdraft limit. Some of these applications were declined but by November 2019 Miss G's overdraft limit had increased to £2,000.

Miss G has said at the time of the applications she was very young, and she has provided us with lots of background detail regarding her circumstances now and at the time of the initial lending. I've not set that out here to help protect her identity, but I have carefully considered what she's told us.

Miss G feels strongly that she shouldn't have been given an overdraft in the first place as it was unaffordable given her low income. She is in receipt of benefits and can only afford essentials and can't afford to pay back the overdraft. To put things right Miss G would like the debt written off.

When Miss G complained to Lloyds about the overdraft it said it hadn't done all it could to help her when it should have. It agreed it had increased her available overdraft limit to an unaffordable level. So, it offered to refund all interest and charges applied from October 2019. It also offered £80 compensation for not identifying sooner that Miss G was suffering financial difficulties.

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 explain how we handle complaints about unaffordable and irresponsible lending on our website. I've used this approach to help me decide Miss G's complaint. The key questions for me to think about while looking at Miss G's complaint are:

Did Lloyds complete reasonable and proportionate checks to satisfy itself Miss G would be able to repay the overdraft in a sustainable way? If so, did it make a fair lending decision?

I've considered these questions carefully, and I agree that from October 2019 Lloyds unfairly increased Miss G's overdraft limit and lent to her irresponsibly. However, I think the action taken by Lloyds to put this right was fair and reasonable in the circumstances for broadly the same reasons as the investigator.

Overdraft approval and limit increase to £500

Looking at the available evidence I can see Miss G successfully applied for a £50 overdraft on her Lloyds current account in May 2019. Within a few days Miss G had requested increases to her overdraft limit firstly to £150, then £300, £350 and then £500. All of these applications were successful and for each increase she stated a different income starting at £370 and rising to £600. She didn't declare any essential expenditure when applying.

Miss G declared a different income on 23, 24, and 26 May 2019. I might have expected this to have put Lloyds on notice to investigate her income further, which I can't see it did. So, I've looked at Miss G's statements for May 2019 and the preceding three months. I found that from February 2019 to May 2019 Miss G's income increased steadily from around £350 to over £600. I also can't see that Miss G was paying for any essential living costs such as rent or utility bills. So, had Lloyds investigated Miss G's income further I can't see that it would have found the overdraft limit increase up to £500 to be unaffordable.

I appreciate what Miss G has said about her difficult circumstances when she applied for the overdraft. But this wouldn't be considered a fair reason not to lend to a customer where they could afford the credit applied for. Miss G has mentioned being in an abusive relationship at the time and I have no doubt this would have had a significant impact on her. But Miss G hasn't responded to our requests for information about how this impacted her finances and it's not clear how Lloyds' ought to have been aware of this at the time it reached its lending decisions. So, I've considered the case on the information available to me.

Given this, I don't think Lloyds' decision to lend to Miss G up to the £500 overdraft limit was unaffordable or irresponsible. But as I have already said, I do think the credit extended to Miss G beyond that was unaffordable. However, I'm satisfied that Lloyds' offer to refund the interest and charges applied to the account from the date the overdraft limit was increased beyond £500, is in line with our approach. So, I think Lloyds has acted fairly in this case.

Financial difficulties

Where a customer finds themselves in financial difficulties, we would expect a business to act with forbearance. I agree that Lloyds could have done more to proactively identify that Miss G was struggling financially sooner. But I think the offer of £80 compensation along with the refund of interest and charges is fair in the circumstances.

Although ideally Lloyds could have stepped in sooner, when Miss G contacted it in February 2020 it took reasonable steps to prevent any further interest or charges accruing. It also looked to set up an affordable repayment plan which is what we would expect in the circumstances. As this wasn't affordable for Miss G the account was closed with her agreement and had an outstanding balance of over £1,900.

I understand Miss G feels strongly the debt should be written off. However, even where we establish that credit was unaffordably extended, we think it's fair that the money borrowed - and that the customer has had the benefit of - should be repaid. But we don't agree that the lender should benefit from extending this unaffordable credit - which is why we ask it to refund any interest and charges applied.

Given this, I don't think it would be fair to ask Lloyds to write off Miss G's debt. So, I won't ask it to do this. I understand Lloyds has already paid the compensation and applied the refund to the outstanding balance - if it hasn't, it should do so now. I'd encourage Miss G to work with Lloyds to try again to find an affordable payment plan if and when her circumstances improve. And I'd remind Lloyds of its obligation to treat customers in financial difficulty fairly. In doing so, it will need to consider Miss G's particular circumstances and any vulnerability.

My final decision

For the reasons I've set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 11 March 2024.

Charlotte Roberts
Ombudsman