

The complaint

Mrs H, through a representative, says Lloyds Bank PLC irresponsibly lent to her.

What happened

Mrs H opened a credit card with Lloyds in June 2017, she was given an initial limit of £1,500. In September 2018 this was increased to £3,500 and in April 2019 to £4,000. Lloyds closed Mrs H's credit card account after she included the card in her debt relief order in November 2021. It had an outstanding balance of £3,976.90.

She says Lloyds did not carry out proper checks and she was already struggling financially. And it did not offer support when things got worse.

Lloyds says it carried out proportionate checks using what Mrs H told it when she applied, what it already knew about her, and information from the credit reference agency. Mrs H passed all its checks and she managed her account well until July 2021 when she informed it she had lost her job. It pointed out she had requested the credit limit increases.

Our investigator did not uphold Mrs H's complaint. She said as Lloyds no longer has all the results to share, and Mrs H has not sent the information requested, she did not have the evidence to conclude the checks at the point of application were unreasonable or that the debt was unaffordable. She felt the checks for the limit increases were proportionate and showed the credit to be affordable.

Mrs H disagreed with this assessment and asked for an ombudsman's review. I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments or new evidence by 5 October 2023.

Extract from my provisional decision

The credit card application

Lloyds says that it carried out all relevant checks when making its decision and the card was deemed to be affordable for Mrs H. It says that Mrs H declared a gross annual income of £15,366 and housing costs of £350. It used information it held about her and data from credit reference agencies to estimate the monthly minimum repayments on her existing credit. It allocated an amount for living costs based on national statistics. Its internal credit decisioning system then looked at her credit history, the type of credit she was applying for and her declared income to make its lending decision.

Lloyds no longer has the full results of these checks so I cannot know exactly what this assessment showed. And I appreciate that Lloyds' lending decision was automated, but this does not mean that obvious available information should be ignored. Lloyds had an excellent source of data about Mrs H's financial circumstances – its own internal records. Mrs H had an existing relationship with Lloyds as she held her current account at the bank. So information was easily accessible and clearly relevant to her credit card application, and I

think that Lloyds should have taken this into account. Whilst in its final response letter it said it used information it already held about Mrs H, I can't see it reviewed and took into consideration her current account status.

As I have found its checks were not proportionate I have reviewed Mrs H's bank statements to see what Lloyds would have known had it done the same. From the bank statements it has provided for the months before she applied, I can't see that Lloyds was wrong to open the account for Mrs H. There were no signs of financial difficulties or instability, such as the use of payday loans, returned direct debits or multiple gambling transactions. Mrs H was using her overdraft facility but only towards the end of a month and at a relatively low level.

It follows based on the available evidence I don't think Lloyds was wrong to give the credit card with its £1,500 limit to Mrs H.

The credit limit increases

Lloyds says it looked at how Mrs H was using her card, her repayment history and information from the credit reference agencies. But again I would have expected it to check her current account position as part of its proportionate checks. The first limit increase in September 2018 was significant in value, and in the circumstances I am not wholly persuaded by the argument that the good historical management of a lower limit is an indicator that a much higher limit is sustainably affordable. And had it reviewed Mrs H's current account I think it would have been concerned that extending an additional £2,000 of credit to Mrs H at that time was not responsible.

I say this as Mrs H's reliance on her overdraft facility had clearly increased since June 2017. In the months prior to the first limit increase she was consistently using her overdraft for the remainder of the month from around a week after her pay day, so I would say she was persistently reliant on that credit. She was no longer using the facility for an overdraft's intended purpose. And her overdraft balance was growing, it was typically around three times higher than in June 2017. So I think it would have been reasonable for Lloyds to conclude that Mrs H was having problems managing her money. It was therefore not a fair lending decision to increase her credit line.

Mrs H's finances had not recovered and stabilised by April 2019 at the time of the second increase so my findings are the same about that lending decision.

I note Lloyds' comment that Mrs H asked for the limit increases but that does not change its obligation to lend responsibly.

It follows I find Lloyds was wrong to increase Mrs H's credit limit from £1,500.

I don't think Lloyds acted unfairly towards Mrs H in any other way. From what I have seen once she made contact in July 2021 to tell Lloyds she had lost her job it placed her account on hold and froze interest and charges. She then notified it a few months later that she had included it in her debt relief order and it responded appropriately.

I then set out what Lloyds would need to do to put things right.

Mrs H accepted my provisional decision. Lloyds also said it would accept the ombudsman's recommendations but would need to amend the redress – in Mrs H's favour - due to internal limitations.

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 considering Mrs H's complaint.

As neither party submitted any new evidence I have no reason to change the findings or outcome set out in my provisional decision.

Lloyds did flag that it cannot calculate the interest and charges applied above the limit of £1,500 after September 2018, and so it will refund all interest Mrs H has paid after this date. This is to Mrs H's benefit and there is no need for me to comment further on this point.

In conclusion, I find Lloyds was wrong to increase Mrs H's credit limit in both September 2018 and April 2019.

Putting things right

Lloyds must:

1. Refund all the interest and charges Mrs H has paid on balances above £1,500 from the date of her limit increase in September 2018 onward*.
2. If the borrowing is still in place, Lloyds should reduce the outstanding capital balance by the amount calculated at step 1.
3. If, after step 2, there remains an outstanding capital balance, Lloyds should ensure that it isn't subject to any historic or future interest and/or charges. If the balance has already been written-off Lloyds must not attempt to collect it. But if step 2 leads to a positive balance, the amount in question should be given back to Mrs H and 8% simple interest** should be added to the surplus.
4. Once Mrs H has cleared any outstanding capital balance, any adverse information recorded after September 2018 in relation to the account should be removed from her credit file.

*Lloyds is opting to refund all interest Mrs H has paid after this date, not just on balances over £1,500.

**HM Revenue & Customs may require Lloyds to take off tax from this interest. If it does, Lloyds must give Mrs H a certificate showing how much tax it's taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I am upholding Mrs H's complaint in part. Lloyds Bank PLC must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 3 November 2023.

Rebecca Connelley
Ombudsman