Financial Ombudsman Service

Complaint

Mr A has complained about loans Lloyds Bank PLC ("Lloyds") provided to him. He says his complaint about these loans are effectively an extension of his mis-sold overdraft complaint, which a complaint about has already been upheld.

Background

In August 2017, Lloyds provided Mr A with a first loan for £10,000.00. This loan had an APR of 14.6% and a 48-month term. The total amount to be repaid of £13,045.92, which included interest, fees and charges of £3,045.92, was due to be repaid in 48 monthly instalments of £271.79.

Mr A successfully applied for a second loan for £16,251.54 in January 2020. £4,251.54 of the funds for this loan went towards settling the balance on loan 1 and £12,000.00 went to Mr A in additional funds. Loan 2 had an APR of 15.9% and an 84-month term. The total amount to be repaid of £26,224.84, which included interest, fees and charges of £9,973.26, was due to be repaid in 60 monthly instalments of £312.20.

One of our investigators reviewed what Mr A and Lloyds had told us. And he thought that Lloyds hadn't done anything wrong or treated Mr A unfairly. So he didn't recommend that Mr A's complaint be upheld. Mr A disagreed and asked for an ombudsman to look at his complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr A's complaint.

Having carefully considered everything, I've not been persuaded to uphold Mr A's complaint. I'll explain why in a little more detail.

Lloyds needed to make sure that it didn't lend irresponsibly. In practice, what this means is Lloyds needed to carry out proportionate checks to be able to understand whether Mr A could afford to repay before providing these loans.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Lloyds provided Mr A with personal loans for £10,000.00 and £16,251.54 in August 2017 and January 2020. These loans were due to be repaid in 48 instalments of just over £270 and 84 instalments just over £320 respectively.

Lloyds says it agreed to Mr A's applications after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against the funds being received into his bank account and information on credit searches it carried out and all of this information showed Mr A could comfortably afford to make the repayments he was committing to. On the other hand, Mr A has said that his complaint about these loans is an extension of his overdraft complaint which has been upheld.

I've carefully thought about what Mr A and Lloyds have said.

The first thing for me to say is that while Mr A has linked this complaint to his successful overdraft complaint, it's probably worth me explaining that Mr A's overdraft complaint was partially upheld partly because he was allowed to keep using it, in circumstances where he'd been provided with loans to clear the balance.

Mr A has already received compensation for his overdraft and has been placed in the position where he would be had he not been able to continue his overdraft in the way he did. As this is the case, I don't think Mr A's complaint about his loans should be upheld just because his overdraft one has been partially upheld. This is particularly as Mr A borrowed more than the amount of his overdraft on both occasions, so I'm not persuaded that his overdraft caused him to take out the loans in the way he argues, either.

I now turn to my thoughts on the checks carried out at the respective times. Lloyds has not provided me with the details of what it saw when it carried out its credit checks. Nonetheless, Mr A has provided a copy of his full credit file and I have considered this in order to get an idea of what Lloyds is likely to have seen at the respective times.

Having considered the information provided, I've not seen any defaulted accounts, missed payments, short-term or high cost borrowing, or anything else to indicate that Mr A would experiencing difficulties managing his existing credit. Furthermore, when I combine this with information on Mr A's regular living costs and his income at the respective times, he does appear to have had enough left over to be able to make the payments to these loans. So it's difficult for me to say that Lloyds needed to do more, or more importantly it should have decided against lending to Mr A.

I accept it's possible that Mr A's actual circumstances might not have been fully reflected either in the information he provided, or the information Lloyds obtained. But although this in itself is not determinative of the payments being affordable, I nonetheless do think that Mr A making all of his payments in full and on time and even going on to make overpayments before settling loan 2 within three years, is indicative of the payments being affordable.

I've also kept in mind that loan 2 was taken while loan 1 was outstanding and repeat lending can sometimes be indicative of unsustainable debt. But as I've explained Mr A had maintained his payments to loan 1. And there wasn't anything to indicate that the total amount Mr A would owe, or the monthly payments going forward (which were only around £50 higher), would be unmanageable given what Lloyds most likely knew about Mr A at the time.

Furthermore, given the amounts involved, it wasn't immediately obvious that Mr A might have been taking loan 2 because of the effect the repayments to loan 1 was having on his finances. And there isn't anything else obvious in either of these applications which lead me to think that further checks would have been reasonable and proportionate, particularly as all of the information available indicates that information gathered is likely to have suggested the loans were affordable.

As this is the case, I don’t think that Lloyds did anything wrong when deciding to lend to Mr A – the information provided indicates that proportionate checks would have suggested that the repayments for these loans were affordable. And the second loan was provided in circumstances where Mr A’s indebtedness didn’t appear to be increasing unsustainably either.

So overall I don’t think that Lloyds treated Mr A unfairly or unreasonably when providing him with his loans. And I’m not upholding Mr A’s complaint. I appreciate this will be very disappointing for Mr A – particularly given he’s had a different complaint upheld. But I hope that he will understand the reasons for my decision and that he’ll at least feel his concerns have been listened to.

My final decision

For the reasons I’ve explained, I’m not upholding Mr A’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr A to accept or reject my decision before 13 March 2024.

Jeshen Narayanan
Ombudsman