DRN-4836018

The complaint

Miss G is complaining about Lloyds Bank PLC because she says it lent irresponsibly when giving her a credit card she couldn't afford.

What happened

Following her application to Lloyds in June 2019, Miss G was accepted for a credit card with a credit limit of £3,600. This limit has never been increased and I understand the account has now defaulted and the debt has been sold to a third party debt collector.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be upheld. My reasons were as follows:

> *Before lending to Miss G, Lloyds was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider are:*
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> - *Did Lloyds complete reasonable and proportionate checks to establish that Miss G would be able to repay the credit in a sustainable way?*
> - *If so, was the decision to lend fair and reasonable?*
> - *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*
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> *The rules, regulations and good industry practice in place at the time the credit was approved required Lloyds to carry out a proportionate and borrower-focused assessment of whether Miss G could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant Lloyds had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of her making payments, it had to consider the impact of the repayments on Miss G.*
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> *The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.*
>
> *In general, I think a reasonable and proportionate assessment should be more thorough:*
> - *the lower the customer's income, reflecting that it could be more difficult to make repayments from a lower level of income;*
> - *the higher the amount due to be repaid, reflecting that it could be more difficult to*

meet a higher repayment from a particular level of income;

- *the longer the term of the credit, reflecting the fact that the total cost is likely to be greater and the customer is required to make payments for an extended period; and*
- *the greater the instances and frequency of credit, and the longer the period of time during which a customer has been given credit, reflecting the risk that repeated refinancing may signal borrowing has become unsustainable.*

There may also be other factors that could influence how detailed a proportionate check should have been for a given application, including any indications of borrower vulnerability or foreseeable changes in future circumstances.

Lloyds has described the information it gathered to assess whether Miss G's credit was affordable before it was approved. This included:

- *information contained in her application, including her income;*
- *information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit, including missed payments and defaults; and*
- *an expenditure assessment using a combination of modelled data for key expenses and actual data from the CRA about repayments on her existing credit.*

Lloyds maintains its affordability assessment was proportionate to the credit being given and demonstrated it was affordable.

After carefully reviewing the information Lloyds has provided, I don't think I can reasonably conclude it carried out a reasonable and proportionate affordability assessment in this case. In particular, I'm conscious the initial credit limit offered was high and that Lloyds has only provided us with a very limited summary of the information held on Miss G's credit file. We have asked if it received additional information from the CRA but it says it's given us everything it saw at the time. I don't think the information provided in connection with the credit check provides sufficient detail that Lloyds could say with any confidence the credit was affordable. For example, it doesn't record the amount of actual credit Miss G already had.

After reviewing the information Lloyds says it took into account in deciding whether to lend, I believe further checks were required to complete a proportionate affordability assessment.

I can't know exactly what further checks Lloyds might have carried out at the time, but I think obtaining more information about Miss G's existing credit commitments and a consideration of her actual income and expenditure would have been reasonable. So we've obtained a copy of her credit report and bank statements for the three months prior to the lending to establish what information could reasonably have been discovered.

Unfortunately, the credit report doesn't show the balances of Miss G's existing accounts in 2019, but it does reveal she had several open credit accounts at the time, including four credit cards, four store cards and two loans. A review of her bank statements shows Miss G's actual income was considerably lower than the amount Lloyds used in its affordability assessment – between £1,000 and £1,200 per month compared to £1,655. The statements also show a pattern whereby her account was consistently overdrawn for most of the month and only returned to a credit balance for a few days after she was *paid. In addition, she exceeded the agreed overdraft limit in each of the three months before her application to Lloyds.*

If Lloyds had seen this information, it's my view that it shouldn't have offered Miss G another credit card, particularly one with a substantial limit.

In reaching this conclusion, I did note that Miss G transferred balances from two cards to the Lloyds card once the account was opened. While any introductory offer might have reduced her outgoings on this debt for a short period, it doesn't change the fact that Lloyds' actions increased the amount of credit available to her significantly and I don't believe it was appropriate to do that based on what it should have discovered about her circumstances.

In summary, if Lloyds had adequately assessed whether the credit repayments were affordable and sustainable, it's my view it shouldn't have lent to Miss G. It's for this reason that that I'm proposing to uphold this complaint.

Neither Lloyds nor Miss G had anything further to add in response to my provisional decision.

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.

As neither party has made any further submissions in response to my provisional decision, my findings haven't changed from those I set out previously.

Putting things right

The principal aim of any award I make must be to return Miss G to the position she'd now be in but for the errors or inappropriate actions of Lloyds. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think Lloyds should have lent to Miss G, I don't think it's fair for her to pay interest or charges on the amount borrowed. But she has had use of the money that was lent, so I think it's fair she repays the amount borrowed (without the addition of interest or charges).

To put things right, Lloyds should now take the following steps:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since it was opened.
- If the reworking results in a credit balance, this should be paid to Miss G with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

  HM Revenue & Customs (HMRC) requires Lloyds to deduct tax from any interest. It must provide Miss G with a certificate showing how much tax has been deducted if she asks for one. If Lloyds intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.
- Or, if after the reworking there's still an outstanding balance, Lloyds should arrange an affordable payment plan with Miss G for the shortfall.

- Remove any adverse information recorded on Miss G's credit file relating to this credit, once any outstanding balance has been repaid.

If Lloyds no longer owns the debt, it should liaise with whoever does to ensure any payments Miss G has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement to this complaint.

My final decision

For the reasons I've explained, I'm upholding Miss G's complaint. Subject to her acceptance, Lloyds Bank PLC should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 3 July 2024.

James Biles
Ombudsman