

The complaint

Miss M complains that Lloyds Bank PLC lent irresponsibly when it approved her application for a credit card and later increased the credit limit.

What happened

Miss M applied for a credit card with Lloyds in June 2019. Lloyds approved the application and gave Miss M a credit card with an initial credit limit of £3000. In November 2019 the credit limit was increased to £3750 and in March 2022 the credit limit was increased to £4500.

Miss M complained that Lloyds had lent to her irresponsibly. Lloyds didn't agree. Miss M remained unhappy and complained to this service.

Our investigator upheld the complaint. She said she didn't think Lloyds had completed proportionate checks to determine whether Miss M was able to sustainably afford to repay the credit card. She said the credit limit was high in proportion to Miss M's salary, and although Miss M had said in her application that she had no other financial commitments, her credit report indicated otherwise. The investigator said that if Lloyds had completed proportionate checks, these would've shown that she didn't have enough disposable income to afford the agreement.

Lloyds didn't agree. It said that based on Miss M's average income and expenditure from her bank statements, she had monthly disposable income of £1985.59. Lloyds said this disposable income could've been higher as there appeared to be other accounts held by Miss M which it hadn't had sight of. Lloyds said that Miss M had managed the account well, had always remained within the credit limit and had always maintained monthly payments, sometimes repaying the balance in full. It said this led it to believe that the card was affordable for her, both at the time the card was approved and throughout the time Miss M had held it.

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 approach to complaints about irresponsible and unaffordable lending including the relevant rules, guidance and good industry practice on our website. I've had this approach in mind when considering Miss M's complaint.

Having done so, I've reached the same conclusion as the investigator. I think Lloyds lent irresponsibly. I'll explain why I've reached this decision.

Lloyds needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means that it should've carried out reasonable and proportionate checks to make sure Miss M could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of things, such as how much was being lent, the

repayment amount, Miss M's borrowing history and her income and expenditure.

Lloyds has provided details of the checks it carried out before it approved Miss M's application for the card. It says that these checks showed that the card was affordable for Miss M.

I've reviewed the information that Lloyds obtained from its checks. The credit check showed that Miss M had no defaults or adverse markers. The credit report showed that Miss M had monthly commitments of £249 on unsecured debt. Lloyds used an industry tool to estimate Miss M's monthly expenditure, including her living expenses. In her application, Miss M said she lived at home with her parents and that she didn't have any other financial commitments. She declared an annual income of £21,589. Based on the checks it had carried out, Lloyds calculated that Miss M had monthly disposable income of £1985.59.

I've thought about whether the checks carried out by Lloyds were reasonable and proportionate. Having done so, I think Lloyds should've carried out further checks. I say this because the credit limit on the card at the outset was £3000, which was high in relation to Miss M's annual salary. And although Miss M stated on her application form that she had no other financial commitments, her credit report showed that she did have several other financial commitments. It isn't possible to calculate exactly how much unsecured debt Miss M had at the time of her application, or how she was managing her other financial commitments. I appreciate that Lloyds calculated that Miss M had monthly commitments of £249 based on the information it could see. However, I don't think the information obtained at the time was sufficient for Lloyds to be satisfied that the credit was affordable for Miss M. For these reasons I'm not satisfied that reasonable and proportionate checks were completed.

I've gone on to consider what reasonable and proportionate checks would've shown if they had been carried out at the time of the application. I've done this by looking at Miss M's bank account statements and her credit file.

Miss M has provided this service with bank statements, savings account statements and evidence of a loan which she took out three months prior to the credit card application. Miss M's bank statements show that her net monthly pay for the three months leading up to the credit card application was £1212.50. This is less than the figure estimated by Lloyds. Miss M provided this service with documents showing that in March 2019, she took out a loan from her employer for £4,950, which she was repaying at £225 per month by way of deduction from her pay. I appreciate that this loan wouldn't have been visible on Miss M's credit file but if Lloyds had requested and reviewed Miss M's bank statements and payslips, they would have been able to see that Miss M was earning less than they had calculated, and that she was having a fixed monthly sum deducted from her pay.

I've also looked at Miss M's monthly disposable income. Lloyds estimated this at £1985.59. This estimate was more than Miss M's net pay each month. I can see from the statements provided by Miss M that Miss M used her bank account to transfer funds to her savings account, and when she was running short of money in her bank account, she would transfer money back from her savings account. Having reviewed the statements, I can see that Miss M's monthly disposable income averages much less than the figure calculated by Lloyds. Miss M's level of disposable income isn't sufficient to make sustainable repayments to a credit card with a credit limit of £3000. Based on what I've seen, the credit card wasn't affordable for Miss M.

I can see from Miss M's credit file that between April – June 2019, Miss M used a different credit card to make cash withdrawals. This indicates that Miss M was experiencing financial difficulties and needed to rely on credit to meet her financial needs.

Taking everything into account, I'm persuaded that if Lloyds had carried out further checks, it would've seen from the information obtained that the credit card wasn't sustainably affordable for Miss M. Miss M's financial position hasn't changed significantly since she took out the credit card, so it follows that the credit limit increases in November 2019 and March 2022 weren't affordable for Miss M either. From what I've seen in the card statements, Miss M used the card to withdraw cash in September 2019 (just prior to the first credit limit increase) and several times in 2020. This indicates that Miss M increasingly needed to rely on credit to meet her financial needs.

Based on what I've seen, I don't think Lloyds carried out reasonable and proportionate checks and I don't think the credit was sustainably affordable for Miss M.

Putting things right

I've explained why I don't think it was responsible of Lloyds to give Mrs M the credit card and to increase the credit limit. In the circumstances, I don't think it's fair for Lloyds to charge interest or fees under the agreement.

Miss M has had the benefit of the monies she's spent or withdrawn as cash on the card so I think she should be responsible for paying this back.

Lloyds must:

Rework the account removing all interest, fees and charges (not already refunded)

If the rework results in a credit balance, this should be refunded to Miss M together with 8% simple interest per annum calculated from the date of each overpayment to the date of settlement. Lloyds should also remove all adverse information in relation to this account from Miss M's credit file.

If the rework results in an outstanding balance, Lloyds should arrange a repayment plan with Miss M. Once Miss M has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

HMRC requires Lloyds to deduct tax from any award of interest. Lloyds must give Miss M a certificate showing how much tax has been taken off 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.

My final decision

My final decision is that I uphold the complaint. Lloyds Bank PLC must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 24 July 2024.

Emma Davy
Ombudsman