

The complaint

Mrs W, represented by a family member Mr N, complains that Lloyds Bank PLC was irresponsible in its lending to her.

What happened

Mrs W was provided with a £20,000 loan by Lloyds in July 2023. Mr N says that Mrs W had become mentally ill around April/May 2023, and he wasn't aware that she had applied for the loan. He said that the automated online application process wasn't fit to identify a vulnerable customer and that more robust checks should have taken place. He said that Mrs W was working part time at the time of the application and earning £8,000 a year and the loan shouldn't have been considered affordable. He has explained that Mrs W's mental health has been made worse by the loan.

Lloyds noted the complaints in regard to irresponsible lending and also its use of automated systems during the application process. It initially issued final response letters not upholding the complaint. It said that reasonable checks were carried out before the loan was provided and that based on the information it received through its checks, the loan was agreed.

Lloyds then re-reviewed Mrs W's complaint. It said that while it was unaware that Mrs W was unwell when she applied for the loan it agreed further checks should have taken place. It upheld her complaint and said that due to her serious health conditions it would write off the loan so no balance was outstanding and said that any adverse information would be removed from Mrs W's credit file.

Our investigator considered the complaint and the actions taken by Lloyds. He thought that by writing off the loan and removing any adverse information from Mrs W's credit file, Lloyds had done enough to put things right. He therefore didn't require Lloyds to do anything further in resolution of this complaint.

Mr N said that Lloyds wouldn't have known about Mrs W's mental health condition when she applied for the loan but that adequate checks would have shown the loan was unaffordable. He said the scope of the complaint went beyond the irresponsible lending to vulnerable people to include Lloyds' incorrect approval of loans to people who can't afford them or who won't repay them. He said this wider issue needed to be referred to the Financial Conduct Authority (FCA).

Mr N also said that Lloyds had written to him on several occasions not upholding the complaint before it changed its approach. He said that the pressure of having the loan had caused Mrs W serious mental health issues. He noted that Lloyds had agreed to write off Mrs W's loan but said that this didn't resolve the wider issues of loans being provided irresponsibly and he felt this wider issue needed to be flagged and addressed. He said that Lloyds should pay compensation for the distress this issue had caused Mrs W and her family.

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 our investigator has explained, we are not the regulator. Our role is to investigate individual complaints brought by consumers. We assess these by taking all relevant rules and regulations into account, but our decision will be based on what we consider fair and reasonable given the unique circumstances of each complaint. In this case, Mrs W raised a complaint about irresponsible lending. Mr N has also then raised concerns about the wider issue of how Lloyds' online application process operates and the impact of providing loans irresponsibly to consumers.

In regard to the loan provided to Mrs W, Lloyds wasn't aware of Mrs W's mental health condition at the time of application and Mr N has said that the loan should have been refused on affordability grounds. Lloyds initially said that reasonable checks were carried out before the loan was provided, however after reviewing the case it said that further checks should have taken place. I understand the upset that was caused by Lloyds not reaching this conclusion sooner (and note the letters sent out initially not upholding the complaint), but as this was accepted, I find it reasonable that action was taken to reflect this.

When adequate checks aren't undertaken before a loan is provided, we look to what would have been identified had adequate checks occurred. I accept that in this case had more thorough checks taken place they would likely have raised concerns about the affordability of the loan. In such cases, we would usually expect the loan provider to remove all interest, fees and charges from the loan but that the lent amount would remain repayable. However, in certain circumstances it is reasonable that the loan provider considers further action. With regard to Mrs W's loan, due to the information that was provided about Mrs W's mental health, Lloyds wrote off the loan and said all adverse information would be removed from Mrs W's credit file. Given the unique circumstances of this complaint, I find this a fair outcome.

I note Mr N's comment about the impact the provision of the loan had on Mrs W and her wider family. I am very sorry to hear of the extremely distressing time Mrs W has experienced and the upset this has caused her family. Compensation can only be awarded to the complainant, so I have considered the information provided about the impact the provision of the loan had on Mrs W. While I do not underestimate the pressure Mrs W felt as a result of having the loan, and I have taken into account her vulnerability, I do not find I can say the issues Mrs W experienced with her mental health at that time were solely the result of the loan, and taking everything into account, particularly that Lloyds has written the loan off, I do not require it to also pay additional compensation.

I understand the wider issues Mr N has raised about the online application process. As has been explained, it isn't our role to investigate Lloyds' online application process, rather we look at how this is applied to individuals and will respond to any complaints arising from this. We do have regular contact with the FCA and any trends and patterns arising from the complaints we see are shared. However, if Mr N wishes to raise this directly with the FCA he can do so.

I've also considered whether Lloyds acted unfairly or unreasonably in some other way given what Mrs W has complained about, including whether its relationship with Mrs W might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. However, for the reasons I've already given, I think the actions already taken by Lloyds result in fair compensation for Mrs W given the circumstances. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

My final decision is that Lloyds Bank PLC isn't required to do anything further in response to this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 13 September 2024.

Jane Archer
Ombudsman