

The complaint

Mr H has complaint that Lloyds Bank PLC ("Lloyds") didn't conduct sufficient affordability checks before lending to him. Had it done so it would've seen he couldn't have afforded his repayments.

What happened

Although Mr H has had more personal loans from Lloyds than the one outlined below. The one below is the only one being considered because this is the loan Mr H complained about.

Lloyds advanced £10,604.71 in November 2022. This consisted of £2,500 of 'new' money with the remaining capital going towards repaying a previous Lloyds loan which was advanced in April 2022. The loan had interest fees and charges of £8,316.29. If Mr H repaid the loan in line with the credit agreement, he would've repaid £18,921. Mr H was due to repay this loan through 60 monthly repayments of £315.35. The loan has an APR of 28.9%. Lloyds's statement of account shows that an outstanding balance remains due.

Following Mr H's complaint Lloyds wrote to him to say that it wasn't upholding the complaint because it completed adequate checks that showed the loan to be affordable. Unhappy with this response, Mr H referred the complaint to the Financial Ombudsman.

The complaint was then considered by an investigator, and she didn't uphold it. She did say that given the way Mr H had been granted payment holidays on a previous loan, his income hadn't been checked and Mr H declared he didn't have any housing costs but said he was in rented accommodation. These factors ought to have led to further checks being carried out. However, had further checks been conducted, such as a review of his bank statement, Lloyds would've still thought the loan was affordable for him.

Mr H didn't agree with the outcome that was reached saying the surplus income calculated by the investigator wasn't accurate. Mr H also said the tax credits received would drop and so had further checks been conducted the loan wouldn't have been approved.

These points didn't change the investigator's mind and as no agreement could be reached the complaint has been passed to me to decide.

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/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. And I've used this approach to help me decide Mr H's complaint. Having carefully considered everything I've decided to not uphold Mr H's complaint. I'll explain why in a little more detail.

Lloyds needed to make sure it didn't lend irresponsibly. In practice, what this means it needed to carry out proportionate checks to be able to understand whether Mr H could

afford to repay any credit it provided.

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 checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done 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 firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr H's complaint. Having looked at everything I have decided to not uphold Mr H's complaint and I've explained why below.

Lloyds has said that before the loan was granted Mr H's application went through a credit assessment, indebtedness assessment and its own internet lending rules. It used a combination of credit file data and the information Mr H provided as part of his application. Having carried out these checks Lloyds concluded Mr H could afford his repayments.

Lloyds has shown for this loan that Mr H declared an income of £1,816 per month. Although Mr H declared he was in rented accommodation no rent or housing costs were declared. It knew that Mr H had existing commitments of £675 and it then used internal modelling to work out that Mr H had other living costs of £431 per month. Lloyds also added a further buffer of £50.

Overall, taking account that the previous Lloyd's loan would be repaid, it calculated Mr H had around £768 per month in disposable income and so based on its calculations the loan appeared affordable.

A credit search was also carried out by Lloyds, and it has provided the summary of the results that it was given. It was told that Mr H didn't have any defaults, County Court Judgments or any other type of insolvency. There had been no credit searches conducted within the last six months – indicating that Mr H wasn't regularly taking out new credit. However, Lloyds was told that there had been one missed payment on an account within the last six months.

I do have some concerns about the affordability checks that were conducted by Lloyds. Firstly, Mr H declared he lived in rented accommodation but didn't have any housing costs. To me, that would be unusual. It is of course possible, that someone else was paying the rent but there doesn't appear to have been an attempt to find out this. I don't think it was reasonable for Lloyds to just accept what Mr H said without probing further.

Secondly, although Mr H had borrowed just over £10,600 he was only given £2,500 of new money. And from the statements provided by Lloyds it also looks like the April 2022 loan was similarly taken to repay a previous Lloyds loan. So, this was now the second time within seven months that Mr H had returned to Lloyds for new funds, after being given another loan. Lloyds records also show that this was Mr H's third loan since September 2021.

Finally, from the account notes, I can see that Mr H had been granted payment holidays in 2021 and 2022 while repaying his previous loans. Although not an automatic indication of financial difficulties, it does show that Mr H needed additional help and support in repaying his previous loans. So, before this loan was granted, I do think Lloyds needed to have done

more, and found out further details about Mr H's finance including, at a minimum, what his living costs were.

However, concluding the checks didn't go far enough doesn't mean that Lloyds was wrong to have lent the loan and isn't solely enough to uphold the complaint. After all, it's possible, and entirely plausible that had further checks been conducted into Mr H's circumstances then Lloyds may have well discovered that the loan was affordable. And so why its checks may not have been good enough at the time, had it made better checks it would've still decided to have advanced the loan.

While I've used the copy bank statements provided by Mr H, there wasn't, and isn't, a requirement for Lloyds to have considered them. The bank statements are just one of the ways Lloyds could've gone about investigating Mr H's living costs and his wider financial position. But given that Mr H was a Lloyds customer I don't think it was unreasonable that Lloyds considered them.

Mr H has provided copy bank statements from around the time the loan was advanced, and so I've looked at this to see what his outgoings and income were. Mr H confirmed that he was paid every other week, and given the amounts I can see, the income figure used by Lloyds as part of its affordability assessment appears accurate.

However, on top of this, the account also received payments for tax credits and benefits which increased the income further. I've thought about what Mr H has said, but it's not unreasonable to have used the additional income as part of any affordability assessment, because this was being received regularly, and would be used for household costs. This added a further £832 per month in income.

There is also a further benefit, that the investigator didn't include in the income because she couldn't be sure who the money was used for. I've not included it in the above figures, the money didn't appear to be moved to another account, and so was perhaps further source of funds that was used to cover living costs.

In the three months leading up to the loan being advanced, thinking about all the direct debits, standing orders, payments for energy including the payment for the Lloyds loan that was due to be settled came to about £1,600 per month. On top of this there was on average around £70 per month on petrol as well as about a £100 per week for food.

Mr H declared there were no rent payment as part of his application and I can't see any such payment in the bank statements. But Mr H told the investigator there was no rent due at the time. So had Lloyds made further enquires it would've likely discovered that Mr H didn't have any rent to pay.

The bank statements didn't suggest that Mr H couldn't afford the payments, there were no returned direct debits and an overdraft hasn't been used. In addition, I was only able to locate one payment to a payday lender – so there wasn't anything to suggest that Mr H was supplementing his living costs through other means.

Although I do have some concerns about Lloyds allowing Mr H to refinance another loan – it was just about reasonable for this loan to be granted given further checks would've showed Lloyds that Mr H could afford the repayment he was committed to making.

Overall, I'm not persuaded that Lloyds acted unfairly when providing the loan to Mr H, I think had it completed reasonable and proportionate checks these would've likely showed the loan to be affordable and sustainable. I am therefore not upholding Mr H's complaint.

I am sorry to hear repaying the loan has been difficult for Mr H. An outstanding balance does remain due and so he may wish to approach to Lloyds to see what help and support it maybe able to offer him. And I would remind Lloyds of its obligation to treat Mr H fairly and with forbearance.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Lloyds lent irresponsibly to Mr M or otherwise treated him unfairly in relation to this matter. 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

For the reasons I've outlined above, I am not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 28 November 2024.

Robert Walker
Ombudsman