

The complaint

Mr H complains that Lloyds Bank PLC lent to him irresponsibly in that it approved a loan for him he could not afford.

What happened

Mr H took a loan from Lloyds in January 2023 which was for £1,661.46. This loan was to pay off his Lloyds credit card which had opened in September 2021. And Mr H took a further £5,000.54 the purpose for which he described on the loan application form as '*miscellaneous*'. The total loan was for £6,662 plus interest repayable over 48 months at £225.71 each month. The payments of £225.71 were set up to be taken from an account ending *9968.

Mr H complained about this loan (and his credit card which is being dealt with under a separate complaint file) in June 2024 and received Lloyds' final response letter (FRL) in July 2024. It did not uphold his complaint. So, Mr H referred it to the Financial Ombudsman Service. I can summarise Mr H's complaint – Lloyds would have been aware of his overdraft (dealt with as a separate complaint) on account ending *6660, his transactions, his existing loan/credit cards and so it ought to have realised he was juggling money and debt and getting into a spiral.

One of our investigators considered the complaint and she thought that Lloyds had carried out proportionate checks and that the figures it had calculated established that Mr H could afford the £225.71 each month. She did not uphold his complaint.

Mr H requested that an ombudsman review it and so it was 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 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 not to uphold Mr H's complaint. I'll explain why in 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. 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 the arguments, evidence and information provided in this context

and what this all means for Mr H's complaint. Mr H's application presented his details as being a self-employed person earning £25,300 each year before tax. He told Lloyds that his housing costs for a rental property were £200 and his other costs were £200. He informed Lloyds he had a partner and they shared the costs of the house.

Lloyds has submitted copies of income credits into one of his Lloyds current accounts for October, November and December 2022 being the three months leading up to his loan application in January 2023. Lloyds said:

'His current account shows his average monthly income as £2,483.33 which is higher than what he declared on his application. I can't see the rent for £200 being paid as stated on the application but I can see he transfers money each month to a [third party] the amounts vary. [Mr H] does use his overdraft, but he never goes anywhere near his overdraft limit of £2,000, his current account shows no signs of financial difficulty.'

Lloyds forwarded to us the credit search it carried out in January 2023 and the results were that Mr H's housing costs were £200, his unsecured credit commitments were £397 (taken from a credit reference agency and internal data) and what it had calculated as essential living costs were £578. Lloyds is entitled to consider use of statistical data for living costs.

Lloyds added a 'buffer' figure by which it means a figure to build in a margin of £50. As Mr H had declared an income of £1,600 a month (it's likely this was his conservative income figure after tax) then this did give Mr H the financial headroom to be able to afford the loan. And considering what Lloyds had seen on the bank statements that his gross income was around £2,483 on average each month – and so the net income was likely to have been more than £1,600 a month - then it does appear that Mr H was able to afford the loan.

Lloyds obtained as part of its credit reference agency search details of any defaults, the 'worst statuses' of other accounts, any CCJs and any bankruptcy or other insolvency issues. None were reported to it.

Lloyds would have been aware of the credit card Mr H had with it and has told us that when Mr H applied for the loan in January 2023, Mr H's outstanding balance was £1,661.46 which is noted in its 'existing commitments' part of the loan application details forwarded to us. As has already been outlined, the loan Mr H was taking was to clear this balance and take a further £5,000. So, Lloyds would have been aware that he was consolidating that debt. I have seen the credit card statement records showing that this sum was paid to the card on 21 February 2023.

Lloyds had also been aware of Mr H's overdraft which was not being used to the credit limit – about 25% was being used – around £420 on an overdraft limit of £2,000. It considered that to be a fact not likely to have caused it concern when Mr H was applying for the loan. And I have done as Mr H requested and read the other complaint files including that relating to his overdraft. And so, all these factors and details taken together lead me to conclude that Lloyds did not need to make further enquiries. It had carried out proportionate checks before deciding to lend.

Lloyds has said that Mr H had paid off the loan satisfactorily until April 2024 when he started to get into arrears. Mr H had never approached it to say that he was having difficulties with his finances before his complaint submissions for his overdraft, loan, and credit card. Mr H has also told us that his personal life changed and he has told us that a business he was involved with does not trade now but I do not know the dates for these changes in circumstances. But I have no evidence from Mr H or from Lloyds that these were the circumstances in January 2023 when he applied for the loan.

Mr H has tried to send to us details of his current credit file situation and has not been able to send a complete picture. Mr H has referred to former County Court Judgments (CCJs) and a house repossession. They do not appear on the Lloyds credit search or the credit search pages Mr H has managed to send to us relating to his own credit history. And I've no dates for those CCJs or the house repossession and it may be that they were more than six years before his current credit file extracts that he has managed to send to us. Mr H has said, those earlier financial stress events were not items he could find on his credit file history to send to us.

One example Mr H was able to demonstrate was that a CCJ was removed from his record in 2020 which means it must have been on his record in 2014 which was many years before he applied for the Lloyds loan. Without further information I have proceeded on the basis that the events Mr H refers to pre-date the January 2023 loan application so would not be relevant.

My conclusion is that Lloyds carried out proportionate checks in January 2023, was aware of Mr H's other accounts he had with it and the status of those, had carried out a credit reference agency search and had calculated through an affordability assessment that Mr H could afford the loan. I do not uphold Mr H's complaint.

Mr H has described a series of unfortunate events which are leading to his financial situation becoming problematic, I can see that this poor financial picture is difficult and I hope things improve for him. But that does not mean that Lloyds lend to him irresponsibly in January 2023. And Mr H may wish to see assistance with this which can be obtained from several sources including Lloyds and some debt charities.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 5 February 2025.

Rachael Williams
Ombudsman