

## **The complaint**

Ms D complains that Lloyds Bank PLC was irresponsible in its lending to her. She wants all interest and charges paid on her loan refunded.

## **What happened**

Ms D was provided with a £8,000 loan by Lloyds Bank in August 2018. Under the loan agreement she was required to make monthly repayments of £186.75. The loan term was 60 months, and the loan was settled in December 2023.

Ms D said that at the time of the lending, she was already struggling financially and had substantial debts outstanding. She doesn't accept that the loan should have been considered affordable and said she had to take out further debt to meet her repayments. Ms D doesn't think that Lloyds Bank carried out adequate checks before the lending was provided noting that her bank statements weren't checked and that the decision to lend was made very quickly. Ms D said the debt has caused her stress and anxiety.

Lloyds Bank issued a final response dated 28 December 2023. It said that when Ms D applied for the loan it completed checks to see if she could afford the repayments. It used her monthly income and deducted items such as housing costs, repayments for existing debt and an amount for day-to-day living. It said Ms D declared a monthly income of £3,133 and rent/mortgage costs of £715 and no other monthly commitments that weren't shown on her credit file. It carried out a credit check and included amounts for her existing repayments and estimated her living costs using third party data. It said Ms D passed its checks and the loan was provided. Lloyds Bank noted that having reviewed Ms D's bank statements there was a regular payment of £616.38 being made – Ms D has explained this was her rent costs for her shared ownership property – but Lloyds Bank said it wasn't aware of this at the time of lending and Ms D had confirmed in her loan application that the information she provided was correct.

Ms D wasn't satisfied with Lloyds Bank's response and referred her complaint to this service. She explained that she entered her mortgage costs but there wasn't the option to then enter her rent and as she is in a shared ownership property she has both mortgage and rental costs. She said she had provided accurate information but couldn't include both parts of her housing costs.

Our investigator thought that the checks Lloyds Bank carried out before the loan was provided were reasonable, noting they included reviewing three months of Ms D's bank statements. While he found the checks proportionate, he said that the information received through the checks should have raised concerns. He said that Ms D's bank statements showed that Ms D's income fluctuated and her average income for the three months was around £3,033. He found that average non-discretionary costs were around £2,799 and with the repayments for the loan (£186.75) this would leave Ms D with around £18 monthly disposable income which he didn't think was sustainable. Therefore, he upheld this complaint.

Lloyds Bank didn't accept our investigator's view and noted that Ms D hadn't missed any of the loan repayments and had fully repaid the loan. It said that based on the information gained from Ms D and the credit risk data received at the time of the lending, the loan was affordable. Lloyds Bank noted that our investigator had suggested its checks were proportionate but had then reviewed Ms D's bank statements which it said should only happen if its initial checks weren't considered reasonable. It further said that even if its checks weren't found to be proportionate a review of Ms D's bank statements would still show the lending to be affordable.

Lloyds Bank noted that our investigator had included an amount for childcare costs which appeared to be paid in cash. It said that on Ms D's application she said that she didn't pay childcare costs. Therefore, it didn't accept that the cash withdrawals should be included as part of Ms D's regular expenditure. It noted payments to an individual but said that these varied and it wasn't clear what these were for. It said that it would have needed to discuss these further to verify these costs but as they weren't disclosed in Ms D's online application it wouldn't have the information to do this. It noted the food costs were taken as all payments to grocery type merchants and didn't think this was a reasonable approach to assessing essential spending (noting the costs varied substantially). It said a better approach was to rely on third party estimates for living costs.

Lloyds Bank didn't accept that the lending was unaffordable for Ms D and said there were no signs of financial difficulties in her bank statements.

#### *My provisional conclusions*

I issued a provisional decision not upholding this complaint. The details are set out below.

*Before the lending was provided, Lloyds Bank gathered information about Ms D's employment and income as well as asking her about her housing costs and other major commitments. A credit search was carried out and Lloyds Bank then used third party data to estimate Ms D's living costs. Our investigator said that a review of Ms D's bank statements had been undertaken but based on Lloyds Bank's response it appears that it relied on the information Ms D supplied in her application alongside the credit risk data.*

*Lloyds Bank noted that the credit search didn't show any defaulted accounts, but it has also noted that the credit risk data from the point of application recorded Ms D's unsecured credit commitments as £1,498 (which was around 48% of Ms D's declared monthly income). This is a high amount and I think that it would have been proportionate to have verified Ms D's income and to have asked further questions about her expenses to ensure it had a clear understanding of her financial circumstances at the time. Ms D had a Lloyds Bank account which showed her income and expenses, and this could have been used to understand her financial circumstances in more detail.*

*Having looked through the information gathered by Lloyds Bank and the details contained in Ms D's bank statements, I can see that her monthly income in the months leading up to the application averaged around £3,000. This is slightly lower than the declared amount but not so much so that I think it should have raised further concerns.*

*Ms D's bank statements show she was paying around £716 for her mortgage and £616 for her rent (she has a shared ownership property). This gives a total monthly housing cost of around £1,332. Additional to this she was making payments for costs such as council tax, utilities, communications contracts and insurance. These totalled around £325 a month. Ms D had other credit commitments at the time and was paying on average around £465 a month towards these. The total of these costs came to around £2,122. After the Lloyds Bank loan repayments of around £187, this would leave Ms D with disposable income to cover the*

*costs of her food, transport and other general expenses of around £691. Based on this calculation I do not find I can say the checks showed the lending to be unaffordable.*

*Ms D has explained that she was also paying for childcare. She has said she had an informal arrangement for this and paid cash. However, in her application form she said she wasn't paying for childcare and so I do not think that had further checks of her statements been undertaken, Lloyds Bank would have realised the cash withdrawals were for childcare costs. While Ms D has said her childcare costs averaged around £150 a week, the cash withdrawals vary substantially in the months leading up to the lending and I cannot say for certain that the whole amount of the withdrawal was for childcare. I also cannot say for certain that had Lloyds Bank asked about the cash withdrawals she would have said these were for childcare costs given she had declared on her application that she wasn't incurring these.*

*There are frequent payments to and from another person which Ms D has explained was her partner. She has said he mostly contributed £800 a month but this didn't always happen. Looking through Ms D's statements these show a monthly net contribution from her partner of around £575.*

*So, even if I did include an amount of around £600 a month for childcare, this is almost entirely offset by the additional net contribution to costs she was receiving from her partner. Taking everything into account, while I think checks including an assessment of Ms D's bank statements should have taken place, I cannot say for certain what these would have identified. And based on the evidence I think most likely would have been seen, I do not find I have enough to say the lending should have been considered unaffordable.*

Ms D responded to my provisional decision. She said that disposable income of £691 wasn't enough to cover food, transport and general expenses. She also noted that she had spent most days in her overdraft in May 2018 and many days in overdraft in June and July 2018.

### **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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

I can understand why Ms D is upset by my issuing a provisional decision with a different outcome to the investigator's view. However, our process involves an investigator making an initial assessment and he issued his view summarising this. As Lloyds Bank didn't agree with our investigator's view the case was passed to me, an ombudsman, to make a decision. I reviewed all of the evidence provided and, in this case, I came to a different outcome to our investigator which was why the provisional decision was issued.

I note the comment Ms D has made about her disposable income. However, having looked through the evidence provided, as I set out in my provisional decision, I do not find that further checks would have shown the lending to be unaffordable. I considered the information contained in Ms D's bank statements including all committed costs for expenses

such as housing, utilities, council tax, insurances, communications and her payments to existing creditors. Ms D was also receiving a contribution from her partner and I have noted this and her comments about childcare costs (even though she didn't disclose these at application). Taking everything into account, I find that the disposable income left isn't such that it should have raised concerns about the affordability of the agreement.

I also note Ms D's comment that she was making use of her overdraft around the time of the lending. Use of an overdraft doesn't necessarily mean that additional lending shouldn't be provided but can be a reason for further checks to take place. In this case I thought that further checks were needed as set out above. In regard to Ms D's overdraft usage, I can see she was clearing her overdraft with her salary and her accounts show no other signs of financial difficulty, such as returned direct debits. So, in this case, as I don't think that further checks would have suggested the loan to be unaffordable, I do not find I can uphold this complaint.

I've also considered whether Lloyds Bank acted unfairly or unreasonably in some other way given what Ms D has complained about, including whether its relationship with her might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Lloyds Bank lent irresponsibly to Ms D or otherwise treated her 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**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 27 February 2025.

Jane Archer  
**Ombudsman**