

The complaint

Mrs H complains Lloyds Bank PLC lent to her irresponsibly when they granted her an overdraft and failed to ensure it remained affordable.

What happened

Mrs H complains about the following lending decisions and Lloyds' failure to monitor her reliance on borrowing:

Date	Previous limit	New limit
18 August 2018	£0	£600
10 September 2018	£600	£1,000
2 October 2018	£1,000	£1,500
3 July 2019	£1,500	£2,000
10 March 2020	£2,000	£2,500

Lloyds investigated Mrs H's concerns and issued their final response in January 2024. In this, Lloyds explained they were satisfied their checks demonstrated the overdraft and subsequent limit increases were affordable. However, by the time of her annual review on 26 September 2023, they should have looked to remove her overdraft because the account was with their collections department and Mrs H was experiencing financial difficulties. Because of this, they offered to refund interest and charges applied to Mrs H's account from 6 September 2023 (minus £100 they'd previously refunded). Lloyds also said they would remove Mrs H's overdraft in 30 days' time.

Mrs H remained unhappy, so she brought her complaint to our service. In doing so, she maintained Lloyds' ought to have known the overdraft wasn't affordable and she was heavily reliant on her full overdraft limits.

Our Investigator looked into what had happened, and felt Lloyds' offer was fair in the circumstances. Our Investigator wasn't persuaded Mrs H was persistently utilising her full credit limit – so didn't agree she was showing signs of financial difficulties before the point Lloyds upheld her complaint.

Mrs H disagreed with our Investigator's findings, so her complaint was passed to me for a decision.

I issued my provisional decision on 23 May 2025, and explained I was minded to conclude Lloyds should refund interest and charges from September 2022.

Both parties had until 6 June 2025 to send further evidence and/or points they wanted me to consider. Lloyds agreed with my provisional decision, but Mrs H didn't respond. As such, my decision remains the same.

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.

Having considered everything, I'm upholding Mrs H's complaint. I'll explain my reasoning below.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. This is something Lloyds is familiar with, and I've used this approach to help me decide Mrs H's complaint.

Lloyds needed to make sure it didn't lend irresponsibly. In practice, this means they needed to carry out reasonable and proportionate checks so that they could understand whether Mrs H could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an "affordability assessment" or "affordability check".

The checks needed to be borrower focused – meaning Lloyds had to consider if repaying the credit sustainably and within a reasonable period of time would cause difficulties or adverse consequences for Mrs H. It wasn't enough for Lloyds to consider the likelihood of getting their funds back – they had to consider the impact of the repayments on Mrs H.

Checks also needed to be proportionate to the specific circumstances of the lending. What constitutes a proportionate affordability check will depend on several factors, but not limited to, the particular circumstances of the consumer, and the amount/type/cost of credit they were seeking. So, I've kept all this in mind when thinking about whether Lloyds did what they needed to before lending to Mrs H.

Mrs H applied for her overdraft in mid-August 2018. Given the time that's passed, there's limited information about what Mrs H declared regarding her income and expenditure. However, Lloyds has provided us with Mrs H's statements from the time and the outcome of her application. From the evidence I seen, it's likely Mrs H's application would have said she earned around £1,300 per month as that was her average earnings for the three months prior. The statements also suggest her essential expenditure (excluding food and clothing) was around £300 - £400 a month. This indicates she had a monthly disposable income of between £900 - £1,000 per month – so she would have been able to repay the £600 overdraft within a reasonable period of time. Given I've seen nothing else to suggest the lending wouldn't be sustainable, I don't consider it was unfair for Lloyds to lend at this point.

Mrs H applied to increase her overdraft limit to £1,000 in September 2018 and then £1,500 in October 2018. Her statements show her monthly income and expenditure remained the same as that when she first applied for her overdraft, and again I've not seen anything to suggest there were signs further borrowing may not be suitable for her circumstances. Mrs H's monthly disposable income of around £900 - £1,000 meant she ought to have been able to repay these overdraft limits within a reasonable period of time, so don't consider Lloyds treated her unfairly by lending to her.

I've seen the application data for the £2,000 credit limit increase in July 2019. Mrs H declared her income was £1,300 and housing costs at £200. Credit referencing agency (CRA) data suggested Mrs H was spending around £28 per month on credit and Lloyds used their internal model to estimate her essential living expenses to be around £397 a month. This left Mrs H with a disposable income of £625 a month as Lloyds added a £50 housing buffer to their calculations. This level of disposable income would have been enough for Mrs H to repay her overdraft within a reasonable period time, so I don't consider it was unfair for Lloyds to approve this application.

The final credit limit increase, to £2,500, was in March 2020. The application data shows the only change was to Mrs H's unsecured credit commitments as this increased to £93 a

month. This left her with a monthly disposable income of £560, which again I consider was sufficient for Mrs H to repay her overdraft.

While I'm satisfied Lloyds' lending decisions were fair, they still had an obligation to ensure their lending remained affordable. To do this, we would have expected them to monitor Mrs H's use of the overdraft, and to do so at least annually.

Lloyds say the annual reviews should have taken place around September each year. I've reviewed Mrs H's statements from 2018 to late 2023, when she raised her complaint. Having done so, I can see that she often made full use of her credit limits – and on occasion, had some direct debits returned. However, her statements show large volumes of discretionary spend – meaning she had the funds to repay the overdraft within a reasonable period time, but she chose not to.

I've also seen that between late 2018 and mid-2022 large sums of money (separate to Mrs H's usual income) were deposited into her account on more than 10 occasions – and these amounts ranged from just over £1,000 to £10,000. This would often repay most/all of her overdrawn balance and leave her account in credit. But Mrs H's discretionary spend would bring her back into an overdrawn balance.

Mrs H's usual source of income came to an end in March 2021. But she was paid a large lump sum of over £4,000 at that time which brought her account into more than £5,000 in credit. And in April and June 2021, it looks like Mrs H received income from a different source (one that had been paying since approximately December 2020), that again ought to have been enough for her to repay her overdraft within a reasonable period time. However, I can't see she received this income in July or August 2021. Given the close proximity to Lloyds' annual review, I do think this could at the very least have prompted some questions so that they could understand if the overdraft remained affordable – and to remind Mrs H about the intended short-term use of overdrafts and let her know support was available if she needed it.

Lloyds has upheld Mrs H's complaint from the September 2023 renewal; however, I'm not persuaded that's fair. Had Lloyds reviewed Mrs H's account in September 2022, they ought to have seen her regular income had reduced to just over £700 a month and she had five returned direct debits in the three months prior. I have seen a large payment of over £2,000 was paid into her account in August 2022 – but this was from another person and this same amount left her account on the same day. So, I don't think it would have been reasonable to rely on this to safely conclude the overdraft remained affordable.

Lloyds should have considered the information from their 2022 review alongside what they knew from the review they carried out in 2021. Mrs H's management of her overdraft and her reduced regular income of around £700 would have shown she wouldn't be able to repay her £2,500 overdraft within a reasonable period of time. There were signs Mrs H was likely to be experiencing financial difficulties in September 2022, so Lloyds should have taken steps to intervene. Because of this, September 2022 is point from which I'm upholding Mrs H's complaint.

I've considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed results in fair compensation for Mrs H in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My final decision is that I'm upholding Mrs H's complaint about Lloyds Bank PLC.

To put things right, Lloyds Bank PLC should:

- Rework Mrs H's current overdraft balance so that all interest, fees, and charges applied to it from September 2022 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made, Lloyds should contact Mrs H to arrange a suitable repayment plan for this. If they considered it appropriate to record negative information on Mrs H's credit file, they should backdate this to September 2022. Lloyds can also reduce Mrs H's overdraft limit by the amount of any refund if they consider it appropriate to do so, as long as doing so wouldn't leave her over her limit.

OR

- If the effect of removing the relevant interest and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs H along with 8% simple interest* on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all the adjustments have been made, then Lloyds should remove any adverse information from Mrs H's credit file. Lloyds can also reduce Mrs H's overdraft limit by the amount of the refund if they consider it appropriate to do so.

As Lloyds Bank PLC has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mrs H a certificate showing how much tax they have taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 8 July 2025.

Sarrah Turay
Ombudsman