DRN-5691823

The complaint

Mrs H complains that Lloyds Bank PLC ("Lloyds") gave her a credit card and then increased her credit limit when she couldn't afford it.

What happened

I've summarised Mrs H's card approval and credit limit increases in the table below.

Date	Event	Credit limit	Increased to
October 2016	Card approval	£2,500	-
March 2019	Credit Limit increase 1	From £2,350	£3,350
October 2019	Credit Limit increase 2	From £3,350	£4,600

Lloyds decreased the credit limit in July 2017 to £2,350 and it was from this limit that the first increase occurred from. An outstanding balance also remains due as of February 2025.

Following Mrs H's complaint, Lloyds issued two final response letters – one in December 2024 dealing with the credit card limit increases. Then one in February 2025 dealing with the card approval. Lloyds explained why it made fair lending decisions, and it didn't uphold the complaint.

After the complaint had been referred to the Financial Ombudsman Service one of our Investigator's issued a view to say that Lloyds shouldn't have increased the credit limit on the card in March 2019. The notes provided by Lloyds show in the year before the increase Mrs H exceeded her limit on a number of occasions and it had previously declined to increase Mrs H's credit limit.

Mrs H agreed with the outcome reached by the Investigator whereas Lloyds didn't, and I've summarised its responses below.

- Mrs H's credit card statements from 2018 show lots of non-essential spending.
- Mrs H's bank statements showed very few essential costs, but she confirmed her husband covered the bills.
- While Mrs H may have received rental income – which is acceptable for lending purposes and Lloyds says the household income was also a factor.
- Lloyds has speculated that given the amount of rental income Mrs H received in later years, it's possible that she was – jointly with her husband receiving more than the transfers into her account and have more than one rental property.
- There was no indication within the statements to suggest financial difficulties such as returned payments, gambling or reliance on credit.
- While the credit limit was exceeded Lloyds considered this was due to financial mismanagement rather than Miss H not been able to afford the repayments.
- While Mrs H from August 2017 didn't appear to have a regular salary she did receive transfers into her account – which reached £10,000 per year in 2019 and 2020. From 2022 there is regular rental income into the account as well as transfers from her husband.

- Mrs H's credit card hasn't been in arrears and at times has paid significantly more than the minimum payment.

The Investigator explained why these comments hadn't changed her mind about the complaint. 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.

Our approach to unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - is set out on our website and I have followed it here.

While Mrs H's original complaint concerned an overdraft as well as the credit card – only the credit card has been taken forward after Lloyds paid compensation for two overdraft accounts. I want to reiterate this decision solely deals with the credit card.

Lloyds is required to lend responsibly. It needed to conduct checks to make sure that the credit it was giving to Mrs H was affordable and sustainable. Such checks needed to be proportionate to things like the credit limit it offered Mrs H, how much she had to repay (including interest and charges) each month, her borrowing history with it and what it knew about her circumstances. But there is no set list of checks it had to do.

This means to reach my conclusion I need to consider if Lloyds carried out proportionate checks at the time it provided the card and when it approved the credit limit increase for Mrs H, and if so, did it make fair lending decisions based on the results of its checks; and if not, what better checks would most likely have shown. Also, I'll consider whether Lloyds acted unfairly towards Mrs H in some other way.

Both Mrs H and Lloyds agreed with the Investigator's view that it wasn't wrong to have initially approved the card and so this aspect of the complaint appears to longer be in dispute. I therefore won't be looking at the approval of the card in this decision. Instead, I've focused on whether Lloyds made a fair decision when it increased Mrs H's credit limit.

<u>Did Lloyds carry out proportionate checks when it increased the card credit limit in March 2019?</u>

Initially Mrs H had asked for a £5,000 credit limit but Lloyds, declined this and instead granted a limit of £3,350. Lloyds said it would've carried out a credit risk assessment at the time of the March 2019 increase, but due to the passage of time the exact information that it saw and extracted from its checks isn't available.

Lloyds was able to supply the results from the October 2019 increase, so I do have an idea of the sorts of information that it would've looked at. The results of the October 2019 check showed Mrs H had sufficient disposable income to afford the credit limit.

Lloyds has accepted in its submissions – as well as providing the account notes and the credit cards statements in 2017 and 2018 which showed Mrs H did exceed her agreed credit limit and was charged over limit fees when she did. In addition, in this time a number of automated text messages were attempted to be sent to warn Mrs H that she was close to her agreed credit limit.

I've considered that Lloyds says this wasn't due to financial difficulties but rather account mismanagement. But whichever reason, Lloyds was still on notice that Mrs H had demonstrated that, at times she wasn't able to stick to the agreement's credit limit or was close to her credit limit increase.

I can also see from the account notes that through 2017 and 2018 Mrs H had made at least two credit limit increase requests – asking for amounts smaller than the limit granted in March 2019. On both occasions, Lloyds declined these applications.

For the reasons, I've set out above as well as Lloyds not being able to provide me with the actual information it was provided with at the time of the credit limit, like the Investigator, I do think further checks were needed before it granted the credit limit increase in March 2019.

Lloyds's checks could've gone further simply by taking a more detailed look at Mrs H's situation or requesting any documentation it felt was needed or it could've requested bank statements.

I accept that had Lloyds conducted proportionate checks it may not have seen all the information that I have seen. But, in the absence of Lloyds conducting a proportionate check I do think it's fair and reasonable to consider statements that I now have access to – and which Lloyds would've had access to at the time given Mrs H's current account was with them. And having looked at the statements I've come to the same conclusions as the investigator for broadly the same reasons.

Had further checks been made, I think Lloyds would've been aware that Mrs H didn't have any fixed monthly outgoings. This is supported by what the bank statements would've shown it as well as what Mrs H has told us about her situation at the time – that her husband would transfer funds into the account and he covered all the bills. Mrs H's expenditure appears to have been paid by using the Lloyds credit card.

I've also thought about the income spreadsheet that has been provided by Lloyds which show the payments into the current account. But this just reinforces what I've said above – that Mrs H didn't have a salary as such as was receiving payments of around £400 per month from her husband and or this was the rental income. Whether these were payments for rent or payments from her husband – it still showed what I think is fair to say a modest income.

And while occasionally there are larger deposits these tend to be followed my larger payments to the credit card account. So of course, it's possible, that Mrs H had some sort of access to other funds or that her husband was helping her out by transferring her money. But given the amounts I've seen, I don't think I can fairly conclude that an income of £400 per month was sufficient to sustain the credit limit increase Lloyds was proposing.

I appreciate Lloyds has said that there were a number of large payments to the account from 2019 – but I don't think that Lloyds can rely on the fact that occasionally larger payments were made – after the limit increases occurred to show the account was affordable.

And while I can see some payments in 2018 that were significantly greater than the minimum payment needed on the account, I think further investigation would've led Lloyds to see that these payments were only made because Mrs H's husband had transferred money into her account. Which leads me onto the next point Lloyds made about the household situation.

In addition, Lloyds has questioned the deposits made into the account by Mrs H's husband and suggested the household income needs to be considered. Lloyds will be aware that this allowed under the relevant regulations in CONC 5.2A.12(2)(b).

However, as far as I can see at the time of the credit limit increase, Lloyds didn't undertake any investigation or assessment of Mrs H's household income or whether, and by what extent, could she rely on her husband sending money to her account. Or what expenditure Mrs H's husband had – and that may or may not impact payments to Mrs H. I am therefore not exploring this avenue any further given this was a sole agreement and Lloyds needed to be confident that Mrs H would be in a position to afford the card payments.

In addition, at the time Lloyds has speculated that given the later account movements – in 2022 that the amount of rental income Mrs H received significantly increased to around £1,600 per month – while still receiving payments from her husband and possibly selling items online.

While that maybe the case, how Mrs H was using the credit account and her current account in 2022 isn't in my view relevant to what Lloyds would've likely seen had it made better checks in 2019. I don't think I can fairly conclude that the credit limit may only have been affordable given the account conduct some three years before.

That isn't what the requirements within the regulations – the test is whether proportionate checks were carried out at the point the credit was granted (or credit limit increases) occurred - not what maybe the case some years later.

Given everything I've seen, I think at the time of the March 2019 increase that Mrs H couldn't sustainably afford the payments out of any rental income / and or payments she received. I am therefore upholding Mrs H's complaint.

As I've found Lloyds ought to not have approved the credit card increase in March 2019 it therefore follows the credit limit increase in October 2019 wouldn't have been approved either. It therefore follows that as the credit limit increases shouldn't have been approved Mrs H shouldn't have to pay any interest, fees or charges on balances above £2,350 – which was the credit limit in the month before March 2019 increase took place.

I've considered whether the relationship between Mrs H and Lloyds might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below 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.

Putting things right

As I don't think Lloyds should have increased the credit limit from £2,350 which was what the limit was in February 2019, I don't think it's fair for it to charge any interest or charges above this amount. However, Mrs H has had the benefit of the money she spent on the account so I think she should pay this back.

But in order to put things right Lloyds should;

- rework the account removing all interest, fees, charges, and insurances (not already refunded) above the credit limit of £2,350 which was the limit in February 2019 prior to the March 2019 increase.
- If the rework results in a credit balance, this should be refunded to Mrs H along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement.
- Lloyds should also remove all adverse information recorded about this account from Mrs H's credit file.

- Or, if after the rework an outstanding balance remains due still, Lloyds should arrange an affordable repayment plan with Mrs H for the remaining amount. Once Mrs H has cleared the outstanding balance, any adverse information recorded in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Lloyds to deduct tax from any award of interest. It must give Mrs H a certificate showing how much tax it has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that I uphold Mrs H's complaint in part.

Lloyds Bank PLC should put things right for Mrs H as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 29 August 2025.

Robert Walker
Ombudsman