

The complaint

For ease, in my decision I will refer to Mr K when talking about him or his representative.

Mr K complains that Lloyds Bank PLC (“Lloyds”) acted irresponsibly when it granted him a current account overdraft because had it conducted proportionate checks it would have seen it wasn’t affordable or sustainable.

What happened

Mr K was granted an overdraft of £2,000 by Lloyds in June 2021, an overdraft that was never increased.

In March 2024 Mr K complained to Lloyds that it had been irresponsible in granting him an overdraft of £2,000 and it had failed to recognise that this overdraft wasn’t affordable when it conducted its annual reviews.

On 9 July 2024 Lloyds sent Mr K a final response letter (“FRL”). Under cover of this FRL Lloyds said it was satisfied it had conducted reasonable and proportionate checks prior to the overdraft being offered and when conducting its reviews. Unhappy with the FRL, Mr K brought his complaint to our service.

Mr K’s complaint was considered by one of our investigators who didn’t uphold it, coming to the view that Lloyds had treated Mr K fairly.

Mr K didn’t agree and so his complaint has been passed to me for review and decision.

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 done so, I can confirm that I’ve come to the same overall conclusion as the investigator and for broadly the same reasons.

I’m aware that I’ve summarised this complaint above in less detail than it may merit. No discourtesy is intended by this. Instead, I’ve focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

If there’s something I’ve not mentioned, it isn’t because I’ve ignored it. I haven’t. I’m satisfied I don’t need to comment on every individual argument to be able to reach what I think is the right outcome. I will, however, refer to those crucial aspects which impact my decision.

Lastly, I would add that where the information I’ve got is incomplete, unclear or contradictory, I’ve to base my decision on the balance of probabilities.

Did Lloyds conduct proportionate checks prior to making its lending decision?

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 a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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 lender to be able to show that it didn't continue to lend to a customer irresponsibly.

So before approving the credit available to Mr K, Lloyds needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There isn't a prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include – but aren't limited to the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. And it's important to note that an overdraft is designed for short term borrowing. I'd also expect Lloyds to think about Mr K's ability to repay the whole borrowing in a reasonable period.

As part of the online application for a £2,000 overdraft, Mr K declared he was employed with an income of £4,000 per month and that he had no dependants. Lloyds then completed a credit check which it says showed no evidence of any external credit, loans or outstanding debt in Mr K's name and that Mr K was earning in the region of the sum he said he was.

Lloyds haven't been able to provide us with the results of its credit checks and neither has Mr K been able to supply us with a copy of his credit file. So I've gone on to look at his current account statements to see what Lloyds would have seen. I can see that prior to the overdraft being approved, Mr K's account was well managed and he was in fact receiving £4,532 pay per month but on a weekly basis. Lloyds told us it saw no adverse information from the credit reference agency, and I've seen no evidence to contradict this based on Mr K's bank statements.

I don't think Lloyds needed to conduct any further checks at this stage as from what I've seen from the statements, Mr K had managed his account well up until the overdraft was granted and had a declared income to be able to afford the same. And I think it's reasonable that businesses can rely on the information that consumers provide and what the credit checks reveal when making their lending decisions. So I think Lloyds made a fair lending decision when it agreed an overdraft of £2,000 based on the proportionate checks it conducted as there was no evidence to suggest the overdraft wasn't sustainable for Mr K.

Did Lloyds monitor Mr K's repeated use of his overdraft?

The regulations put the onus on lenders that an overdraft isn't generally suitable for long term use. So as well as needing to act responsibly when it took the decision to grant the overdraft – ensuring that the overdraft was sustainably affordable without the need for Mr K to borrow more – Lloyds also needed to monitor and review his overdraft usage. And where it identified a pattern of repeat usage, as with Mr K's account, it needed to take steps to try and reduce it. And on balance, I'm satisfied that Lloyds did this when it sent him repeat usage letters. And although it was clear that Mr K was using his overdraft constantly, I can't say, from the evidence I've seen, that there were signs of financial difficulty.

Lloyds identified Mr K as a repeat user when it sent five repeat users letters to him between July 2022 and April 2024. These letters highlighted the cost of using his overdraft repeatedly and made Mr K aware of support options if he was struggling.

From the statements provided I can see that from around October 2021, Mr K was constantly at the upper levels of the agreed limit and at times also exceeded it. Throughout 2022, Mr K exceeded his limit each month and this resulted in a couple of direct debits being returned. And this continued and in May 2023, there was evidence of compulsive spending in the form of gambling albeit Mr K did also receive winnings during this period. But there were also periods when the account returned to a credit position. I can see a lot of cash withdrawals which Mr K has told us was used to pay bills. Two of these withdrawals were for £5,000 and £3,800. So I think Mr K did have sufficient income, despite constantly being overdrawn, to be able to pay off the overdraft had he wished to do so, in a reasonable period of time.

The regulations that cover overdrafts also make a distinct difference to the options a business has to consider between consumers that are repeat users of the overdraft AND show signs of financial difficulty, and those that don't. And although it's clear that Mr K was clearly a repeat user, I can't say that there was any obvious evidence of financial difficulty such as adverse credit information or being unable to pay essential bills.

And when Mr K contacted Lloyds in 2024 to explain that he was struggling financially, Lloyds stopped charging interest on the overdraft and offered support. And this is what I would have expected a business to do in such circumstances. So on balance, I think Lloyds reacted appropriately after being contacted by Mr K and I think it monitored Mr K's overdraft fairly and in accordance with the regulations.

I appreciate that Mr K will be disappointed, but having considered everything that both parties have said and submitted, I'm simply not persuaded, in the particular circumstances of this case, that Lloyds made an unfair lending decision when approving his overdraft or in its monitoring of it subsequently. And when Mr K did contact Lloyds when he was struggling financially, I think it acted fairly with due consideration and forbearance.

Did Lloyds act unfairly in any other way

I've also considered whether Lloyds acted unfairly or unreasonably in any other way, including whether the relationship between Mr K and Lloyds 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 lent irresponsibly to Mr K 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

My final decision is that I don't uphold Mr K's complaint against Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 26 August 2025.

Paul Hamber
Ombudsman