DRN-5739246

The complaint

Mr C complains that Lloyds Bank PLC ('Lloyds') didn't provide him with sufficient information to enable him to make an informed decision about loan consolidation.

What happened

I issued provisional decisions on this complaint earlier in the year. An extract from those provisional decisions is set out below.

Mr C had an existing loan at a rate of 13.8%. He took out an additional loan of £5,000 and consolidated it with the balance of his original loan. He was subsequently surprised to discover that he was paying 29.7% on the whole balance and much more in interest on the original balance.

He complained to Lloyds who explained that information about the new interest rate had been provided on the credit agreement. Lloyds didn't think they'd done anything wrong.

Our investigator didn't think Lloyds had been reasonable. He didn't think they'd provided sufficient information to enable Mr C to make an informed decision. He suggested Lloyds should refund the interest Mr C had paid since the first loan was consolidated and refund it before adjusting the payment to that which was agreed for the initial loan.

Lloyds didn't agree. They said Mr C had applied for the new borrowing himself on-line and had agreed to the terms supplied. He had, they said, the option to apply for a standalone loan of £5,000 and to continue with his original payments on the first loan, or to consolidate the lending on the first loan with his new funding. They explained that it was Mr C's decision to consolidate the loans at the new interest rate. They asked for a decision by an ombudsman.

What I've provisionally 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.

I agree with our investigator as I don't think Lloyds have been reasonable here, but I don't agree with the redress he proposed. I've set out the way I'm currently expecting to tell Lloyds to put this right, and I'll consider any comments that the parties wish to supply before I issue my final decision on this complaint.

Where the information I've got is incomplete, unclear, or contradictory, as some of it is here, I have to base my decision on the balance of probabilities.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point, it's not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.

The Consumer Duty is a new standard introduced by the Financial Conduct Authority. It sets higher and clearer standards of consumer protection across financial services and requires businesses to put their customers' needs first.

It includes new rules for firms to follow and four areas where firms must apply the Consumer Duty. These four areas are:

- *Consumer understanding*
- *Consumer support*
- *Products and services*
- *Price and value*

As Mr C applied for his consolidated loan after 31 July 2023 the Consumer Duty is something I need to consider when deciding what is a fair and reasonable outcome. It applied before, during and after the sale of the loan.

PRIN 2A.5.3 R Consumer Duty: retail customer outcome on consumer understanding says that:

"(1) A firm must support retail customer understanding so that its communications:
(c) equip retail customers to make decisions that are effective, timely and properly informed."

I've considered whether Lloyds met that duty and provided the information Mr C needed to make a properly informed decision. In particular whether they made it clear to Mr C that the whole balance of the consolidated loan would now be subject to a significantly higher APR.

Lloyds didn't highlight that the initial loan would cost Mr C a lot more over the new term and new interest rate than it would have otherwise done. Screenshots of their application process show that they would have automatically identified that Mr C had an existing loan and have provided a quote to consolidate it with other lending. They would have shown the interest rate for that new, consolidated loan, but they wouldn't have provided a comparison so that Mr C could understand that refinancing the old loan at a much higher rate would cost him several thousand pound more in interest, as was the case here. I can't see that they explained the new interest rate would be worse than the original interest rate. I don't think they, therefore, provided Mr C with sufficient information to make an informed choice.

I think it's likely that if Mr C had been provided with that information, he wouldn't have refinanced his original loan as it wouldn't have made sense to more than double the original interest and Mr C has confirmed he was comfortable making larger payments.

And, even if I didn't think that the Consumer Duty hadn't been met, I don't think Lloyds did enough to provide Mr C with the information he required to make an informed decision, and I think it would be fair for them to take some action to put things right.

Putting things right

I think it's likely that if Mr C had been given sufficient information, he would have kept his original loan on the original terms and taken out a new one with Lloyds at the new rate.

I think Lloyds should therefore review the account and calculate how much more Mr C will be paying on the consolidated loan compared to what he would have paid if he'd kept his original loan running and taken out a new loan at the new rate. That overpayment should be used to adjust Mr C's future monthly instalments so that by the end of the agreement he has paid a similar amount to what he would have if he'd kept the original loan intact.

My provisional decision

For the reasons I've given above, I'm expecting to uphold this complaint and tell Lloyds Bank PLC to:

- *Calculate how much more Mr C will be paying on the consolidated loan compared to what he would have paid if he'd kept his original loan running and taken out a new loan at the new rate.*

- *Use that overpayment to adjust Mr C's future monthly instalments so that by the end of the agreement he has paid a similar amount to what he would have if he'd kept the original loan intact and taken out a new one for the additional borrowing.*

The parties' responses to my first provisional decision

Lloyds spoke to their loans team and provided some new screen shots of the information Mr C would have been presented with when he applied for the loan. Those screen shots showed that Mr C would have been presented with two side by side options showing payment details if Mr C opted for a combined loan (option 1) or if he'd decided to keep the borrowing separate and take out a second loan (option 2). They said that they had, therefore, given Mr C sufficient information to make an informed choice.

Mr C explained that he'd been taking advice from a friend in the industry who had suggested the FCA would be 'surprised if the complaint wasn't upheld, he said:

"…I find what you have suggested in your letter for 'putting things right' a little insulting. I have had to spend a lot of time dealing with Lloyds and yourselves lodging the complaint and this has been going on for over a year now. It has also caused me stress and concern due to how poorly I feel Lloyds have treated me. As consumer duty states, customers best interests should be at the heart of what you do, and this clearly has not been the case in this instance. They clearly care more about profits than providing good customer outcomes with their products. You as the ombudsman have bands for compensation for consumers, however you have suggested no compensation and just a correction of the error you agree that Lloyds have made. I believe I should be entitled to certainly some form of redress on top of Lloyds correcting the error. Otherwise, Lloyds have been allowed to provide poor customers outcomes and the only comeuppance from you as the regulator is allowing them to fix the error with no further ramifications. I find this troubling.

I want to reiterate that I am not doing this through greed and looking for a payout, however after getting a better understanding of the consumer duty regulations through a friend in the financial services sector it is clear that I have been treated pretty poorly by Lloyds. This is a massive corporation which is clearly not abiding by the FCA rules and there will clearly be countless other people they have treated the same way as I. Other much smaller companies are protecting customers and providing fair and value and providing good customer outcomes by changing systems and policies, so I struggle to understand why a corporation as large as Lloyds are not."

When I sent Mr C a copy of the new screen shots Lloyds had sent me, he was surprised to find they were from Halifax and not Lloyds. He didn't think Lloyds had provided evidence *tying those screen shots to his application. He said he didn't remember seeing that information and that all he could remember seeing was the monthly payments next to each other. He said that Lloyds should only have provided a 'side loan' and that they shouldn't have rewritten the existing credit. He believed that the Financial Conduct Authority didn't allow that.*

I asked Lloyds to explain why they had now provided different screen shots of the information Mr C would have seen; why the screen shots were Halifax branded and whether they could demonstrate more clearly that the new screen shots were what Mr C would have been shown at the time of his enquiry. I also explained that I'd forgotten to consider any compensation for distress and inconvenience in my first provisional decision but would consider £200 reasonable if I was still minded to uphold the complaint.

Lloyds explained that:

"There is a difference (in the screen shots), as we had previously believed the consumer went through a debt consolidation journey as indicated by the customer (that had the original screenshots) but once we engaged with our loan team they confirmed that this was a refinance journey so the second set … of screenshots are what was seen by the customer." And "What we can say is the loan application details provided by our loans team and the type of loan applied for in this instance have been confirmed to be a refinance journey and these screenshots are an example of this." In respect of the branding Lloyds said "It is the exact same system for Lloyds Bank, Halifax, BOS and MBNA. Therefore, we deem this sufficient as we often send templates of other information to your service that may be for a different brand but are accepted as they are the same across Lloyds Banking Group."

What I've provisionally 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.

While the new screen shots weren't Lloyds branded, I'm persuaded it's likely they are what Mr C saw when he made his enquiry. I say that because Lloyds have explained it's the exact same system (Halifax are part of the Lloyds banking group) and they've explained that they made a mistake, when responding to Mr C and this Service, and assumed the enquiry was for debt consolidation. I think that's a reasonable explanation as a debt consolidation consumer journey would have been likely to have led to different screens being shown to a consumer. While I can understand that given the time that's past Mr C can't remember seeing those screens, I don't think it would be fair to suggest they weren't what was shown to him.

I think the new screens that have been evidenced did provide all of the information Mr C needed to make a properly informed decision. The side-by-side comparison of both options would have demonstrated the pros and cons of each. There was a comparison of the amount of interest that would be due, the term of the loans, the monthly payments that would be due and the total amount payable.

In that respect I don't, therefore, think Lloyds did anything wrong and I'm not expecting to ask them to make any adjustments to the sums Mr C is repaying on his loan agreement.

Mr C has suggested that Lloyds shouldn't have been offering consolidated loans in these circumstances as a friend has told him the Financial Conduct Authority forbids that in order to stay "in line with Consumer Duty." I'm not aware that the Consumer Duty imposes such a blanket ban but for the reasons I've already given, it does require firms, such as Lloyds, to ensure customers are provided with sufficient information to make properly informed *decisions and for the reasons I've now given, I think Lloyds did that here.*

I do, however, think Lloyds have caused Mr C some distress and inconvenience here. Had they provided the correct screen shots to Mr C when he complained to them in May 2024, I think it's likely the complaint would have been resolved earlier. In the meantime, Mr C has had to escalate his complaint to this Service and has clearly had to spend quite a bit of time preparing his case. Lloyds didn't send us the correct screen shots until after I'd provided my first provisional decision. In the circumstances, I think Lloyds should pay Mr C £200 in compensation but I'm not expecting to tell them to do anything else.

My provisional decision

For the reasons I've set out above, I'm expecting to uphold this complaint in part and to tell Lloyds Bank PLC to pay Mr C £200 in compensation in respect of the distress and inconvenience they've caused him.

The parties' responses to my second provisional decision

Lloyds accepted my findings, but Mr C didn't. For brevity I won't repeat his response in full, but I have summarised what I believe to be his most important points; those I need to consider in order to make a fair decision.

Mr C explained that he hadn't been able to obtain evidence from his friend about the FCA's approach to consolidated loans but that he believed it to be at odds with the Consumer Duty obligations and that he had been given such a loan. He said that Lloyds hadn't provided evidence of what he'd seen at the time of application as the information it had provided was from another bank.

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.

I don't think Mr C has provided any new issues for me to consider. I've already explained that I'm not aware that the Consumer Duty imposes a blanket ban on consolidated loans and I've not been provided with any information that would lead me to change my view on that. And I've already explained why, although Lloyds were only able to provide screen shots from Halifax, I was persuaded the system was the same across the group and that the screen shots shown were those that Mr C was most likely to have seen.

Putting things right

I've not been persuaded to change my second provisional decision and that now becomes my final decision on this complaint.

My final decision

For the reasons I've set out above, I uphold this complaint in part and tell Lloyds Bank PLC to pay Mr C £200 in compensation in respect of the distress and inconvenience they've caused him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 3 September 2025.

Phillip McMahon
Ombudsman