

The complaint

Mr O complains that Lloyds Bank Plc applied charges to his overdraft over the past six years when they should have realised he was in financial difficulty.

What happened

Mr O had an overdraft with Lloyds from November 2012 but has only complained about events over the past six years. So, I'll be considering the activity from February 2019 (six years before the date of his complaint) to March 2020, which is when the overdraft facility was removed.

In February 2019, Mr O's overdraft limit was £1,530. Mr O's limit increased and decreased multiple times between then and February 2020, briefly reaching the maximum limit of £1,850 in December 2019 before decreasing again. The limit reduced to £600 in February 2020 and the facility was subsequently removed completely.

Mr O complained to Lloyds that they allowed him to incur charges when they ought to have realised he was in financial difficulty. He says his income was eaten up by the overdraft and he consistently started the month with a negative balance. He also complained that the fees applied by Lloyds were excessive. Lloyds responded to Mr O's complaint in March 2025 saying that, based on the checks they carried out at the time, they had no reason to believe the overdraft would be unaffordable.

Mr O wasn't happy with Lloyds' response, so he referred his complaint to the Financial Ombudsman. An investigator here assessed his complaint and originally upheld it. Lloyds disagreed with the outcome which led the investigator to review the complaint again. Having done so, she didn't uphold the complaint, saying that the lending decisions were fair and there were no obvious signs of financial difficulty during the period she reviewed.

Mr O didn't agree with the opinion of the investigator. He felt that he hadn't been using the overdraft in the way it was intended and that it was unsustainable. So, he still thought Lloyds should have stepped in.

Because an agreement couldn't 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.

Having done so, I'm not intending to uphold Mr O's complaint. I know this is likely to be disappointing, so I'll explain the reasons for my decision.

The rules and regulations in place at the time Lloyds provided Mr O with the overdraft, and increased the limit, required them to carry out a reasonable and proportionate assessment of whether he'd be able to repay it in a sustainable way. This is sometimes referred to as an 'affordability assessment' or 'affordability check'.

The checks had to be 'borrower-focused'. This means Lloyds had to think about whether repaying the credit would cause difficulties or adverse consequences for Mr O. In other words, it wasn't enough for Lloyds to consider the likelihood of them getting the funds back or whether Mr O's circumstances met their lending criteria – they had to consider if Mr O would be able to sustainably repay the lending being provided to him.

Checks also had to be 'proportionate' to the specific circumstances of the lending. In general, what constitutes a proportionate affordability check will be dependent on a number of factors including – but not limited to – the particular circumstances of the consumer and the amount, purpose, cost of credit they were seeking. I've kept all of this in mind when thinking about whether Lloyds did what was needed before lending to Mr O.

Lending decisions between February 2019 and August 2019 – Did Lloyds carry out reasonable and proportionate checks?

Lloyds provided Mr O with a revolving credit facility. This means that, before each increase, Lloyds needed to check whether Mr O would be able to repay the credit limit they were providing within a reasonable period of time.

Lloyds have provided limited information regarding the checks they carried out between February 2019 and August 2019. This isn't enough to be sure that the checks were proportionate in Mr O's circumstances.

What would proportionate checks have shown?

During this period, Mr O's overdraft limit fluctuated between £1,200 and £1,550.

Lloyds have only been able to provide Mr O's application data for April 2019, which shows he declared his monthly income as £1,750. I can't see that Lloyds verified this, asked for any expenditure details or carried out a credit check. They also provided no evidence of the checks carried out for the other lending decisions made during this period. I've therefore reviewed the available statements and Mr O's testimony to decide what information Mr O likely would have provided at the time.

Having reviewed Mr O's bank statements for this period, I can see that he was receiving a monthly income of around £1,700. Mr O confirmed to our investigator that he paid around £400 for rent and around £100 for his household bills. I've then relied on average data to estimate Mr O's food costs which, in the United Kingdom, is around £190 per month. I couldn't identify any payments towards other creditors from the statements I reviewed, which is also in line with the credit file data Lloyds obtained later in 2019.

Based on this, I think Lloyds acted fairly when they increased Mr O's limit between February 2019 and August 2019. All the increases were for modest amounts and wouldn't have required especially large payments to clear the full amount within a reasonable period. Mr O was earning more than these limits and had a healthy disposable income, so I'm satisfied there wouldn't have been any affordability concerns.

I appreciate Mr O's point about his repeat usage of the overdraft however I'm not persuaded that this ought to have led Lloyds to decline his requests to increase the limit. Having reviewed the statements, I can't see anything to suggest Mr O was struggling financially. I say this because most of the spending on the account was non-essential and Mr O was able to come out of his overdraft on several occasions. So, I don't think Mr O's overdraft usage should have suggested to Lloyds that the limit increases were unaffordable.

Lending decisions between September 2019 and February 2020 – Did Lloyds carry out reasonable and proportionate checks?

Lloyds have confirmed that each time Mr O requested an increase they:

- Asked Mr O what his income was
- Estimated Mr O's essential living costs using statistical data
- Used this information to calculate his monthly disposable income
- Checked his credit file

I think these checks were reasonable and proportionate in the circumstances. For each increase, Mr O declared an income of £1,750 and the credit check showed no adverse information. The affordability assessment also suggested that he had very little external debt.

The regulations specifically allow a business to use statistical data to estimate an applicant's expenditure. And I haven't seen anything in the information Lloyds obtained which ought to have prompted them to do further checks.

Did Lloyds make fair lending decisions?

Just because I think the checks were proportionate based on Mr O's circumstances, it doesn't end there. I need to consider whether Lloyds made a fair decision to lend.

During this period, Mr O's overdraft limit fluctuated between £600 and £1,850.

Lloyds carried out credit checks on each occasion which showed no adverse information. Mr O appeared to be managing his existing accounts well with no missed payments, underpayments or arrears in the months leading up to the applications.

The affordability assessments suggest that Mr O had a very low amount of external debt as the monthly debt commitment figure taken from the credit reference agencies ranged between £21 and £56. Lloyds also used average data to estimate his essential living costs to be around £374 per month. I believe Lloyds' monthly disposable income to be on the high side as it didn't account for Mr O's housing costs. But, as detailed above, we know that these were around £400. So, I'm persuaded that Mr O had enough disposable income to afford sustainable repayments towards the new limits.

I acknowledge that Mr O remained overdrawn continuously between September 2019 and January 2020, so, I understand why he feels Lloyds ought to have noticed this. However, similarly to what I explained above, the spending on the account didn't suggest that Mr O was struggling financially. Most of the spending was non-essential and there were no wider issues such as direct debits being returned. It's also worth mentioning that being continuously overdrawn for four or five months isn't necessarily considered to be long-term. So, I don't think the account activity during this period ought to led Lloyds to decline the limit increases.

Did Lloyds treat Mr O unfairly in any other way?

Mr O has said that it should have been clear to Lloyds that he wasn't using the overdraft facility in the way it was intended. He thinks it was obvious from his usage that the lending was unsustainable and Lloyds ought to have reached out to help.

Banks have an obligation to periodically review the overdraft usage, to ensure that the lending has remained affordable since the last lending decision was made. Lloyds have also confirmed that their Repeat Use Programme identifies customers which might be in financial difficulty. However, Mr O never appeared to reach the threshold to trigger Lloyds sending repeat use notifications, as he was regularly going back into credit (even if for short periods of time).

I'm not persuaded that Lloyds acted unfairly by not stepping in between February 2019 and March 2020. Whilst Mr O was reliant on the overdraft and, at times, didn't see a credit balance for several months, I don't think this suggested he was in financial difficulty. I say this because he was, at times, decreasing his limit during this period, and he has confirmed that he was able to do so by changing his spending habits. So, this confirms that most of his spending was non-essential which he was able to reduce in order to decrease his overdraft limit. As a result, he was able to come out of his overdraft most months.

I appreciate what he's told us about seeing his income being eaten up by the overdraft, starting the month overdrawn and how stressful this was. But being overdrawn for a period of four or five months wouldn't be considered long-term or persistent usage. Based on the overall period I've reviewed, I would consider this to be fairly short-term usage – even though I can appreciate it didn't feel like it to Mr O at the time.

In terms of the charges applied by Lloyds, I've not seen anything to suggest these were unfair or disproportionate. As I explained above, a lot of Mr O's spending was non-essential so I can't agree that these charges were causing him to go or remain overdrawn.

Overall and having carefully considered everything, I'm not persuaded Lloyds treated Mr O unfairly or unreasonably when allowing him to increase his overdraft limit, or when they applied interest and charges to his overdraft.

Finally, I've also considered whether the relationship between Mr O 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 O or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else 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 O's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 1 January 2026.

Amelie Makris
Ombudsman