## complaint

Mr J complains about lending made to him by Lloyds Bank PLC.

## background

Mr J borrowed a large amount of money from Lloyds, by first applying for and then greatly increasing an overdraft. He said he'd borrowed £2,500 in a short period of time. Mr J said he shouldn't have been able to do that, because he had no job, and was already over £40,000 in existing debt.

Mr J said that he couldn't possibly pay off what he had borrowed. He wanted Lloyds to write off this debt, and remove any negative markers from his credit file.

Lloyds told us that Mr J applied for an overdraft of £250 on 25 June 2017. His borrowing had increased to £2,500 by 6 July 2017. Lloyds said Mr J had told it that he was employed. He'd said at first that he had an income of £2,000 per month with £500 of monthly commitments, but then on later applications he said he had an income of £4,000 per month and no monthly commitments. Lloyds said there was no duty on it to check Mr J had a job, but there was a duty on Mr J to give true and accurate information when he made his lending applications.

Lloyds said Mr J then disputed a number of transactions on his account. He received refunds for these transactions while they were being investigated. And he spent those refunds. On the last occasion, this meant that when the transactions were found to be genuine, and debited from his account again, Mr J was around £1,000 over his overdraft limit. The overdraft was removed at that time, and Mr J's account was defaulted.

Our adjudicator upheld this complaint. She said that Lloyds had lent Mr J £750 on the basis of the income he first declared. But it initially refused to lend more than that. Mr J then just reapplied saying that he earned double what he'd previously declared, and had no commitments, and Lloyds accepted Mr J's application.

Our adjudicator didn't think Lloyds should've lent any more than £750 to Mr J. So she thought Lloyds should pay Mr J back any interest and charges for allowing Mr J to borrow beyond this amount. Our adjudicator also said that Lloyds should remove the default from Mr J's credit file, and ensure that the outstanding debt was held in-house and an affordable plan set up to repay the debt. She said this also shouldn't have any impact on his credit file.

Mr J agreed to this proposal. But Lloyds didn't. It said that it would refund fees and charges back to the date proposed. That was £27.20, debited on 1 December 2017. But Lloyds felt that the account would've defaulted regardless of the amount Mr J was lent. It said that Mr J had been abusing the disputed transaction process. His account was closed because of this, and he was asked to repay his debt as part of that. The default was applied when he failed to do that. So Lloyds didn't think that should be removed from Mr J's credit file.

Lloyds said it wouldn't keep this debt in-house. It uses agents to recover debts for it. They are trained to deal with vulnerable customers, and Lloyds didn't think that would impact aversely on Mr J. Lloyds wouldn't make any commitment not to sell on Mr J's debt.

Lloyds also said that the team that deals with customer complaints couldn't set up a recovery plan either. It wanted Mr J to get in touch with the team that manages repayments. It said that Mr J hadn't made any repayments yet.

Because Lloyds didn't agree with our adjudicator, this case was passed to me for a final decision.

**my provisional decision**

I issued a provisional decision on this complaint and explained why I proposed to uphold it in part. This is what I said then:

- Mr J made a number of applications for an overdraft online over a short period of time. I could see that his account wasn't receiving a salary payment, but it was receiving regular transfers in and out before this. I thought it was therefore reasonable for Lloyds to have considered that Mr J may have another account elsewhere. I didn't think that the account activity I could see on Mr J's statements should've caused Lloyds to question what he said about his income and outgoings on the first lending applications that Mr J made. So, like our adjudicator, I didn't think Lloyds did anything wrong when it lent Mr J up to £750.

- Mr J then made a further application, which was declined. He reapplied, declaring a significantly larger income, and no outgoings. I thought that this should've caused Lloyds to question what Mr J had said about his income and outgoings on his online applications. I thought that Lloyds made a mistake when it didn't question what he'd said, and instead lent Mr J amounts over £750, rising to £2,500.

- For those reasons, I agreed with our adjudicator that Lloyds should pay Mr J back any interest, fees and charges for borrowing over £750. I noted that Lloyds had agreed to do that. It said it would use that amount to reduce Mr J's debt to it.

- Lloyds hadn't agreed to do any more than that. It didn't think the later default was caused by its lending. And I thought that was right. I understood that Mr J told Lloyds that a number of transactions on his account were fraudulent. That meant that Lloyds gave him back the money from these disputed transactions. It then checked the transactions, and decided that they were genuine. But it said that in the meantime, Mr J had spent the refunds. So, when the refunds were taken back out of his account, he was very considerably further in debt, and greatly in excess of his agreed overdraft.

- Lloyds said that's why it closed Mr J's account, and defaulted his debt. It thought this was likely to have happened anyway.

- I didn't think that the closure of Mr J's account, and the default of this debt, was directly related to the lending above £750 that I'd said that Lloyds should not have made to Mr J. So I didn't think that Lloyds caused that default.

- I knew that Mr J had told us about the serious impact this debt had on him. And I'd taken that into account in my decision. But I'd explained why I didn't think that it was Lloyds's fault that this debt was defaulted. And Lloyds told us that it doesn't have a mechanism for dealing with debts like this one in-house. I didn't think it would be fair to Lloyds in this case to require it to set that up, so that it could treat this debt differently to others, if the debt hadn't defaulted because of its mistake.

- For those reasons, I thought that it would be a fair outcome in this case for Lloyds to pay Mr J back the interest and charges that it applied to his lending above £750.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Lloyds accepted my proposed decision. Mr J wrote to disagree.

**my findings**

I've reconsidered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. I haven't changed my mind.

Mr J said he already had a number of defaults and other outstanding debts on his credit file when he applied for this lending. He said Lloyds would've seen that, and his low credit score, if it had checked properly. He also said that the money coming into his account was financial support from a family member, and it was nowhere near the levels that were claimed.

Mr J said that when the third application for an overdraft increase came up, which he thought was the increase that took him to £750, then a flag came up on Lloyds' site saying further checks should've been done, but they weren't. Mr J said that we hadn't looked at that.

Mr J said he was shocked to find that Lloyds wouldn't keep his debt in house, because he understood that Lloyds prides itself on helping out vulnerable customers. He said most banks did have a system for keeping debts in-house. And he said although Lloyds said it didn't think this would impact him aversely, that was completely wrong. He said this had all caused a considerable amount of stress and anxiety, and he was having regular treatment.

Mr J also said that he didn't accept the default would've happened anyway. He said it wouldn't if Lloyds had kept to the £500 that was agreed and not let him take the £750.

Mr J didn't think that Lloyds should've allowed him to have any overdraft, and he didn't think it would've done if it had checked properly.

I wouldn't expect Lloyds to have seen Mr J's credit score. Credit scores are provided by credit reference agencies as a quick and accessible way for customers to assess what's on their credit files. Banks don't necessarily assess that data in the same way. But I would expect Lloyds to have seen the data on Mr J's credit file, and made its own assessment on the basis of that.

Lloyds told us that it did check Mr J's credit file. And it knew Mr J had defaults. But it said that these were all some time ago, in 2012 and 2013, and those defaults wouldn't have as great an impact as more recent ones.

Mr J also said that one of his lending applications raised a flag for further enquiries, and that wasn't followed up. I think there's been some confusion about which of Mr J's applications for increased lending this was. It was the application that Mr J made on 28 June 2017, to increase his borrowing from £750 to £1,000. Lloyds turned down that application. I took account of this query, as well as the differences between Mr J's declared income on his earlier and later applications, when I said that Lloyds shouldn't have lent Mr J more than £750. So I've not ignored this issue.

I've now considered the additional points that Mr J has made, and I still don't think that Lloyds made a mistake when it increased his overdraft up to £750.

Mr J also said most banks do have systems for keeping debts in-house. But Lloyds says it hasn't. It's told us that its debt handlers are trained to deal with vulnerable persons, so it doesn't think that the fact that its debts aren't dealt with in house will make a difference to Mr J. I've considered that, and explained why I didn't think that it would be fair and reasonable for me to require Lloyds to set up a system to manage Mr J's debt internally.

Mr J has told us that this default has had a serious effect on him, and he thinks that's Lloyds' fault. So I've also thought again about this default. And I still don't think that was related to the lending that Lloyds had made to Mr J.

I think that the account defaulted because Mr J spent some refunds Lloyds gave him for transactions he'd said were fraudulent. Lloyds checked the transactions, and decided that they were genuine, so it took the refunds back out of his account. Mr J was then very considerably in excess of his agreed overdraft, and when he couldn't pay this money, his account was defaulted.

I think it's more likely than not that the same thing would've happened with these transactions, even if Mr J had no agreed overdraft at all. When this complaint came to us, Lloyds told us that Mr J hadn't paid anything towards this debt. That makes me think that Mr J would still not have been able to pay back the amounts of the spent refunds, even without the overdraft lending on top. So Mr J's account would still have been defaulted as a result of these refunds being spent, even if Lloyds hadn't lent him any money at all. And that means I still don't think this default is Lloyds' fault.

I'll now make the award I originally proposed.

**my final decision**

My final decision is that Lloyds Bank PLC must refund £27.20 of interest and charges to Mr J. It must use that money to reduce Mr J's debt to it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 9 August 2019.

Esther Absalom-Gough
**ombudsman**