

## **Complaint**

Mr S complains about Lloyds Bank PLC's decision to increase his overdraft limit.

## **Background**

The background to this complaint and my initial conclusions were set out in my provisional decision dated 19 August 2019 - a copy of which is attached and forms part of this decision.

In my provisional decision I explained why I thought this complaint should be upheld and what Lloyds should do to put things right. I invited both parties to send any additional information or comments for me to consider.

Mr S responded and said he had other complaints about Lloyds' decision to lend to him he wants us to consider as part of this complaint. But those cases have been dealt with separately and don't form part of the investigation for this complaint.

Lloyds responded to say that it didn't agree with my decision to uphold Mr S' complaint. Lloyds said Mr S' overdraft applications had all passed its affordability and credit assessments and that it's satisfied reasonable and proportionate checks were carried out. Lloyds says that gambling and payday loans would only impact a lending assessment if spending on those items caused a default or excess (arrears).

## **My findings**

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Whilst I note what Lloyds has said, I haven't been persuaded to change my decision.

I note what Lloyds says about the affordability assessments it completed and the figures it relied upon. But my provisional decision explained why I thought Lloyds' decision to approve Mr S' initial overdraft application based on the information it had available was reasonable. I found that Lloyds didn't complete proportionate checks when it increased Mr S' overdraft limit of £2,500 on 31 May 2018 and £2,600 on 13 June 2018. Whilst I appreciate Mr S' applications may have passed Lloyds' application when he applied online, I explained why I didn't think those checks went far enough.

My provisional decision sets out why I think Lloyds should have seen Mr S' spending habits had changed and that it should have done more to complete proportionate checks to ensure the borrowing was sustainable. I've relooked at the information available and note that Mr S applied for a sharp increase in borrowing over a short period of time and that his spending on gambling rose considerably. In addition, Mr S had started to borrow from payday lenders which further indicates something had changed and he was becoming dependent on credit.

I note what Lloyds says about gambling and payday loans but I think that, had it completed proportionate checks, it would have seen Mr S was relying on credit and the debts he was accruing weren't sustainable in the long term.

Mr S says he wants us to deal with his complaints about other credit he's held with Lloyds as part of this decision. But those cases have been dealt with separately with borrowing approved at different times and on different terms. I'm satisfied I have enough information available to make a decision about Lloyds' decision to increase Mr S' overdraft limit.

I've reconsidered all of the available evidence in light of Mr S' and Lloyds' most recent comments but haven't been persuaded to change the decision I previously reached on 19 August 2019. As a result, I'm upholding this complaint.

### **My final decision**

My decision is that I uphold this complaint and direct Lloyds Bank PLC to refund overdraft interest and charges incurred on any balance over £1,500 since May 2018.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 2 November 2019.

Marco Manente  
**Ombudsman**

## **Copy provisional decision dated 19 August 2019**

### **Complaint**

Mr S complains about Lloyds Bank PLC's decision to increase his overdraft limit.

### **Background**

In March 2016 Mr S spoke with Lloyds and asked it not to approve any further overdraft limit increases and it added a note to his account. In February 2017 Lloyds removed the note.

On 23 May 2018 Mr S successfully applied online to increase his overdraft limit from £1,150 to £1,500. On 31 May 2018 Mr S applied to increase his overdraft again and Lloyds approved a £2,500 limit. Lloyds approved a final overdraft application for £2,600 on 13 June 2018.

Mr S later complained and Lloyds responded on 18 December 2018 but didn't agree it had lent irresponsibly. Lloyds said that it couldn't restrict a customer's ability to borrow indefinitely. As a result, on 22 February 2017 it removed the account note requesting no further borrowing.

Lloyds also said Mr S' applications were completed online and that it expects customers to consider whether an increase in borrowing is affordable. Lloyds confirmed that Mr S' overdraft limit increases had been approved after it considered information on his credit file and how he'd managed his accounts. But Lloyds offered to refund £150 in overdraft charges and reduce Mr S' overdraft limit by £100. After Mr S accepted, Lloyds pointed out he'd already reduced his overdraft limit to £2,100.

Mr S referred his complaint to our service and an investigator looked at it. She didn't agree that Lloyds had lent irresponsibly and said it had dealt with Mr S' complaint fairly. Mr S asked to appeal so his complaint's been passed to me to make a decision.

### **My provisional findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I understand Mr S had previously asked Lloyds to restrict future borrowing. But Lloyds has confirmed that its policy is to only apply restrictions of that type for around a year. I appreciate Mr S is unhappy that Lloyds went on to agree further increases but it can decide how to operate and what length of time to keep warnings of that nature on file. I don't think Lloyds did anything wrong by considering Mr S' overdraft limit applications.

I can see Mr S already had an overdraft limit of £1,150 when he applied to Lloyds for a limit increase to £1,500 on 23 May 2018. Lloyds has provided evidence to show Mr S applied on line and that his application was successful. I've looked at the information Lloyds had at hand. It says there weren't any concerns on Mr S' credit file or with the way he ran his account. I've looked at Mr S' account statements and can see it was maintained within the agreed limits. Although I can see there were two reasonably large gambling transactions in the days running up to Mr S' limit increase request, that's not something that regularly featured the account up to that point. From what I've seen, I don't think Lloyds' decision to increase the overdraft limit to £1,500 on 23 May 2018 was unreasonable.

I have more concerns about the next two increases. Mr S applied to increase his overdraft again around a week later, on 31 May 2018. Again, this was an online application so was approved by Lloyds' automated systems. But this was the second time in a very short period that Mr S had applied to increase his overdraft limit which, looking at his account history, was unusual. And I think that should have been a warning sign to Lloyds and caused it to take a closer look at the request.

Whilst I can't tell Lloyds how to assess overdraft limit requests, I have to balance that against its duty to ensure it completes proportionate checks in order to ensure any borrowing it grants is sustainable. In this case, I think the fact that Mr S had requested an initial overdraft limit increase of £350 followed by a second much larger increase of £1,000 a week later should have caused Lloyds to think about the checks it completed and whether they were proportionate to the amount of money Mr S was asking to borrow. I don't think Lloyds' checks were proportionate.

I wanted to get a better understanding of Mr S' financial situation at the time so I've looked at his bank statements. Between 23 May 2018 and 31 May 2018 Mr S increased the level of online gambling considerably and spent £1,000. That's much higher than anything I've seen on Mr S' earlier statements. Whilst consumers can use their money to gamble, I think it's reasonably clear something had changed in the way Mr S was using his overdraft.

I note that Lloyds' response to Mr S' complaint says for online applications it expects consumers to consider whether the borrowing they're applying for is affordable. But I think it's Lloyds' role to ensure it asks the right questions to ensure it lends responsibly.

Given the sudden increase in online gambling between 23 May 2018 and 31 May 2018 (when Mr S made his second request to increase his overdraft limit) I think Lloyds should have asked more questions. And, if it had, I think it's unlikely Lloyds would have agreed to proceed with the overdraft limit increase.

Lloyds agreed a final increase to £2,500 a couple of weeks later on 13 June 2018, the third request Mr S had made in a month. Again, I think Lloyds failed to complete proportionate checks and I think it would have been reasonably clear Mr S was becoming reliant on credit. Lloyds should have taken greater care when considering this credit limit increase and looked at the evidence available to decide how best to proceed.

Again, I can't tell Lloyds what steps to follow when considering whether to approve a request. But I think it should have asked more questions and I note it had access to Mr S' account statements. I've looked at the statements and can see that since the previous overdraft limit was approved on 31 May 2018 Mr S spent around £1,500 on online gambling. I can also see that in the two days leading up to the increase, Mr S had borrowed £1,000 from short term lenders.

Had Lloyds completed proportionate checks, I think it's likely it would have again found that Mr S wasn't managing his finances at this stage and that further borrowing was unlikely to be sustainable. As a result, I agree with Mr S that Lloyds lent irresponsibly when it increased his overdraft limit on 31 May 2018.

I can see that Mr S' overdraft limit was reduced to £2,100 in the months after he complained. There seems to have been a misunderstanding concerning the terms of Lloyds' existing offer. In its final response dated 18 December 2018 Lloyds offered to reduce the overdraft facility from £2,600 to £2,500 after refunding £150 of fees. I agree Lloyds' explanation should have been clearer. But I don't think it ever intended to pay off £100 of Mr S' overdraft for him (beyond the charges it agreed to refund). I'm satisfied that Lloyds offer was to refund £150 of overdraft charges and reduce Mr S' limit from £2,600 to £2,500. But by the time he accepted Mr S had reduced the limit below that point. I understand the limit now sits at £600.

Whilst I can't tell Lloyds how to assess overdraft limit applications, it should undertake proportionate checks to ensure borrowing is sustainable. In this case, I haven't found that the second and third increases (that took the limit from £1,500 to £2,600) were proportionate. Had Lloyds completed proportionate checks, I think it would have found a clear deterioration in the way Mr S was managing his finances and declined to proceed. As a result, I intend to partially uphold this complaint and tell Lloyds to refund all interest and charges Mr S has paid on overdraft balances above £1,500 since 31 May 2018.

**My provisional decision**

My provisional decision is that I intend to uphold this complaint and direct Lloyds Bank PLC to refund overdraft interest and charges incurred on any balance over £1,500 since May 2018.

Mr S and Lloyds Bank PLC have until 19 September 2019 to send me any additional information or comments they wish to make before I make my final decision.

Marco Manente  
**Ombudsman**