

complaint

Mr C complains that Lloyds Bank PLC ("the bank") loaned to him irresponsibly in respect of his borrowing which comprised a credit card, an overdraft, and two personal loans.

background

Mr C held a credit card and overdraft with the bank. In August 2009 and March 2010 he also took out two personal loans which allowed him to consolidate his existing debt. In around this time his credit card and overdraft limits were also increased, and he utilised these increases.

Mr C was able to manage all of his borrowing until early 2012 when he found himself in financial difficulty. Since then all of his accounts have been closed and passed to recovery agents. No repayments are being made. Mr C's credit file has been marked accordingly.

Mr C complained to the bank that it had loaned to him irresponsibly, and that he couldn't afford to maintain the repayments of his cumulative borrowing. He sought a write-off of some of the debts, the reinstatement of his credit rating, and for a new account to be opened from which he could facilitate a repayment plan for the remainder of the debt. He set out how he proposed to partially repay any outstanding balances over a five-year term. He didn't propose to repay them in full.

The bank didn't agree that Mr C's borrowing was unaffordable, and wasn't willing to accept his repayment proposals.

The complaint was brought to this service. In response to our adjudicator's concerns about the sustainability of Mr C's ability to service his debt, the bank offered to write-off the balances on his credit card and overdraft, and said that Mr C would be able to apply as normal either in branch or online for the new account he sought.

Our adjudicator felt that this offer was fair, noting that Mr C did have the benefit of all of the funds, a good proportion of which repaid existing borrowing. In respect of the interest and charges that had accumulated on his accounts, she was of the view that these were legitimate costs of borrowing and had not been incorrectly applied. In particular, in respect of those elements of his borrowing that were used for consolidation she noted that he would have been paying interest in any event.

Mr C didn't accept the bank's offer. He was concerned that in assessing his affordability for the personal loans in 2009 and 2010 the bank didn't take into account the fact that he paid all of his household bills rather than only a proportion, and that had it done so it would have come to a different conclusion on affordability. He also argued that it may have failed to take his PPI premiums into account, which again would have affected its affordability assessment.

Mr C was also very upset that his personal loan debt, on being passed to collections agents, was marked as a credit card debt, and he was unhappy that he continued to be contacted by collections agents for his various accounts, even those in respect of which offers of write-off had been made and which he understood were on hold.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

The main outstanding issue is that of the affordability of the personal loans. When the bank did its retrospective affordability assessment on receipt of Mr C's complaint, it is clear that it didn't take all of his expenditure into consideration. In particular, Mr C was concerned that it didn't take into account the fact that he paid all of the household bills, and he also queried whether his PPI premiums were included in the monthly loan figure. However, following the ingathering of all of Mr C's cheque information from March 2009 until April 2010, the bank ran the assessment again and confirmed to us that the new result showed that the loans remained affordable at the material time. It has also now confirmed that the initial assessment had in fact included the PPI premiums that Mr C was initially paying.

The bank has explained to us how it carried out the retrospective assessment using the new information. On this occasion the PPI premiums weren't included, but we asked the bank about this and it has told us that even had these been factored in at the time, the borrowing still remained affordable.

I'm therefore satisfied that on the basis of this further evidence Mr C's loan applications would still have met with the bank's lending criteria at the time, and the bank was not wrong to view the loans as affordable. This is even on the basis of the inclusion of the PPI premiums in the assessments.

In respect of the incorrect labelling of the personal loan debt when it was passed to the collections agency, the bank has acknowledged this error and has agreed to contact the agency to ask it to make a correction to show the true position. In addition it has offered Mr C £50 for the upset caused.

On the matter of the referral of the accounts to collections agencies, we have discussed this matter with the bank, who has advised that once cases go out to agencies the fact that they are on hold will not always put a complete hold on mail being sent to customers, and that therefore certain letters will still be issued, which although are not letters seeking recovery, can potentially be confusing for a customer. To this end the bank has confirmed that it has marked each of Mr H's accounts as "on hold" once again, and has said that recovery action should not be undertaken by the collections agencies, although certain mail will still be issued in accordance with process. It has also agreed to make a further compensatory payment of £200 for any upset caused to Mr C by this process.

In reaching my decision I cannot ignore the fact that Mr C had the full use of the funds he borrowed, and that much of his borrowing was for consolidation purposes. Therefore it wouldn't be fair to say that the bank on its own increased his indebtedness. A proportion of the debt already existed, and was already attracting interest. Mr C knew what he was borrowing; he provided the bank with the information it required to assess whether it could lend to him; and he knew what his responsibilities were in increasing his debt. I can't conclude that he was unhappy with the bank's lending decisions at the time, as they were in his favour and he availed himself of the additional borrowing and benefitted from the money.

I also have to take into account the fact that he was able to manage his accounts well for over a year, so the borrowing was not obviously unaffordable at the time it was given. Mr C's circumstances may have changed since then, but I can't hold the bank responsible for a decision that was fair at the time.

On the basis of all of the submissions in this case I believe that the bank's current offer is fair and reasonable. In respect of the two lapses that have been highlighted, it has agreed to take remedial action, and has offered a cumulative compensation payment of £250 to Mr C.

In respect of the irresponsible lending allegation, I'm unable to find sufficient evidence to support it.

For all of these reasons it is my decision to partially uphold this complaint in respect of the incorrect labelling of the debt, and the continued contact from collections agencies, only.

my final decision

My final decision is that I partially uphold this complaint. As Lloyds Bank PLC's existing offer to:-

- write-off the existing overdraft debt of £3,335.98, and
- write-off the credit card debt of £7,744.59

remains, in addition to which it has also offered £250 compensation, I would invite Mr C to now consider this cumulative offer.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr C to accept or reject my decision before 26 February 2015.

Ashley L B More
ombudsman