DRN-4339275

## The complaint

Mrs C complains that Bank of Scotland plc trading as Halifax lent irresponsibly when it approved a £20,000 loan in 2017.

## What happened

In June 2017 Mrs C applied for a loan of £20,000 with Halifax. In the application, Mrs C said she was a homeowner with mortgage costs of around £600 a month. Mrs C also said she was employed with a monthly income of £2,400. Regular outgoings of £800 were noted in the application along with £200 a month for credit commitments. Halifax says it carried out a credit search and noted Mrs C's outstanding balances with other lenders and regular payments. Halifax says it didn't find any adverse credit when it looked at Mrs C's credit file.

The loan was approved and paid into Mrs C's bank account with Halifax. In the days that followed, Mrs C used around £6,500 to repay a loan that had previously had a monthly payment of £146 a month. Mrs C also repaid a credit card balance of around £8,450 that she had been making payments to of £192 a month.

Mrs C has told us that the loan Halifax approved led her into a spiral of debt and that she went on to borrow more and more from different lenders to keep up. Mrs C explains that as a result of the financial difficulties she entered a debt management plan for her outstanding unsecured debts.

Earlier this year, Mrs C complained that Halifax had lent irresponsibly and it issued a final response on 30 May 2023. Halifax said it had carried out a credit check and looked at the information Mrs C provided in her loan application. Halifax advised the loan had been approved in line with its lending criteria and didn't agree it had lent irresponsibly.

Mrs C referred her complaint to this service and it was passed to an investigator. They thought Halifax should've carried out more comprehensive checks, like reviewing Mrs C's bank statements, before approving the loan. But the investigator reviewed Mrs C's statements from the period before the loan was approved and wasn't persuaded Halifax had lent irresponsibly.

Mrs C asked to appeal and said Halifax had failed to use realistic outgoings when considering her application. Mrs C also said Halifax had access to her bank statements at the time so should've seen her outgoings were higher than claimed in the application and were insufficient to support a new loan. As Mrs C asked to appeal, her complaint has been passed to me to make a decision.

## 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

In short, before agreeing to lend, Halifax needed to complete proportionate checks to be able to understand whether the borrowing was sustainable for Mrs C. There's no specific list of checks a lender has to complete. While it is down to the lender to decide what specific checks to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, the total cost of the credit and what it knew about Mrs C at the time of application.

Halifax has explained that it relied on the information Mrs C provided in her application to base its lending decision and didn't carry out further checks like asking for evidence of her income or looking at bank statements. But I think our investigator made a reasonable point when they said the checks should've gone further. Mrs C was applying for £20,000 which is a substantial sum. And whilst I understand Halifax carried out a credit search and took the outgoing figure Mrs C provided into account, I think the size of the loan in addition to her existing commitments should've caused Halifax to consider carrying out further checks, like looking at Mrs C's bank statements.

I've seen copies of Mrs C's personal and joint bank account statements for the months prior to the loan application. In the application, Mrs C said her regular expenditure for outgoings was around £800 a month. But the statements show Mrs C was actually paying between £1,200 and £1,400 a month to the account that services living costs. So I agree that the figure used for Mrs C's outgoings in the application was lower than the statements provided show. But I think it's fair to add that even using the higher outgoings figure for Mrs C, her income wasn't fully utilised.

In addition, I think it's important to note that the majority of funds Mrs C borrowed were used to consolidate existing debts, reducing her credit commitments each month. Mrs C's bank statements and credit file show she repaid a loan with monthly payments of £146 and a credit card with regular payments of around £192 a month. That means, whilst the overall lending was increased and Mrs C was required to make new loan payments of £268 a month, by repaying the debts noted above she reduced her monthly payments by around £340 a month. Overall, that meant Mrs C's outgoings for her credit commitments reduced when the Halifax loan was approved and her existing commitments repaid.

Whilst I agree Halifax could've done more to check Mrs C's circumstances during the application, I haven't been persuaded it lent irresponsibly in this case. In my view, even if Halifax had carried out more comprehensive checks it would've still approved Mrs C's loan application. I'm sorry to disappoint Mrs C but as I haven't been persuaded that Halifax lent irresponsibly, I'm not telling it to take any further action.

## My final decision

My decision is that I don't uphold Mrs C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 16 November 2023.

Marco Manente
**Ombudsman**