

Complaint

Miss L has complained about loans Lloyds Bank PLC ("Lloyds") provided to her. She says the loans were unaffordable.

Background

Lloyds provided Miss L with a first loan for £3,200.00 in November 2018. This loan was due to be repaid in 36 monthly instalments of £125.11. This loan was settled early in May 2019 with some of the proceeds from loan 2.

In May 2019, Miss L was provided with a second loan for £4,834.39. £2,834.39 of the proceeds from this loan went towards settling the outstanding balance on loan 1. This loan also had a 36-month term with 36 monthly repayments of £189.82.

One of our adjudicators reviewed what Miss L and Lloyds had told us. And she thought that Lloyds hadn't done anything wrong or treated Miss L unfairly. So she didn't recommend that Miss L's complaint be upheld.

Miss L disagreed and asked for an ombudsman to look at her complaint.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss L's complaint.

Lloyds needed to make sure that it didn't lend irresponsibly. In practice, what this means is Lloyds needed to carry out proportionate checks to be able to understand whether Miss L could afford to repay before lending to her.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Lloyds provided Miss L with loans for £3,200.00 and £4,834.39 in November 2018 and May 2019. These loans were due to be repaid in 36 monthly instalments of £125.11 and £189.82 respectively.

Lloyds says it agreed to Miss L's applications it carried out credit searches and obtained some information on Miss L's income and expenditure. And all of this information showed Miss L could comfortably afford to make the repayments she was committing to. On the other hand, Miss L has said the loans were unaffordable in the same way her overdraft was.

I've carefully thought about what Miss L and Lloyds have said.

The first thing for me to say is that Lloyds has provided us with an indication of what it saw about Miss L's debts at the time of his applications. Crucially, Miss L's debt total at the time of the applications was reasonable in comparison to her income and they appeared to be relatively well managed. For example there were no recent arrears, defaults or county court judgments recorded against her.

I've also kept in mind that Lloyds provided a second loan to Miss L and that sometimes repeat borrowing in itself can be an indication of difficulty. But the amount borrowed for loan 2 didn't make it appear as though it was being taken because of the hole the repayments for loan 1 might have left in Miss L's finances.

Furthermore, loan 1 was taken out to clear what was much more expensive overdraft debt and I can see that Miss L's overdraft limit was reduced at this time. I'm afraid that I don't agree with Miss L's suggestion that her overdraft in itself demonstrates that these loans shouldn't have been provided to her.

I do think that the increased amount borrowed for loan 2 was a warning sign that Lloyds ought to have kept in mind should Miss L have gone on to make any further applications for loans. In other words, I think that Lloyds would have had to apply increased scrutiny to an application for a third loan should Miss L have made one.

So while the pattern of lending here has seen me take a closer look at the individual applications, I'm satisfied that it wasn't immediately obvious that loan 2 was demonstrably unsustainable for Miss L. And there isn't anything else obvious in either of these applications which clearly demonstrates Miss L couldn't have afforded the loans either.

I accept that Miss L's actual circumstances may not have been fully reflected either in the information she provided, or the information Lloyds obtained. But the key here is that it's only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. Given the circumstances here, in particular the lack of any obvious inconsistencies in the information gathered, I'm satisfied that Lloyds was reasonably entitled to lend to Miss L on each occasion.

As this is the case, I don't think that Lloyds did anything wrong when deciding to lend to Miss L - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable. And the second loan was provided in circumstances where Miss L's indebtedness didn't appear to be increasing unsustainably.

So overall I don't think that Lloyds treated Miss L unfairly or unreasonably when providing her with her loans. And I'm not upholding Miss L's complaint. I appreciate this will be very disappointing for Miss L. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or

reject my decision before 2 October 2023.

Jeshen Narayanan
Ombudsman