DRN-4234885

The complaint

Miss B complains that Lloyds Bank PLC lent to her irresponsibly and without carrying out proper affordability checks. She would like all the interest and charges associated with the credit card account refunded.

What happened

In January 2016 Lloyds approved a credit card account for Miss B with a credit limit of £3,500. When assessing the application, Lloyds asked Miss B about her financial circumstances, and it says it obtained a basic credit score before approving the lending.

In March 2017 Lloyds increased the credit limit to £4,000. Before doing so, it carried out a high-level credit check and modelled what it believed Miss B's income and major outgoings were. It also had the benefit of seeing how she had conducted the account over the preceding year or so.

The adjudicator looked at the evidence and thought that Lloyds' checks went far enough and didn't reveal any concerns which should have led it to a different lending decision either at account opening or when it increased the credit limit. So he didn't uphold the complaint. Miss B disagreed, and sent in more evidence. This didn't change what the adjudicator thought, so Miss B asked an ombudsman to look at her case.

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.

Having done so, I'm not upholding it, essentially for the same reasons as the adjudicator.

My starting point in reaching my decision is to first look at what information Lloyds had when considering Miss B's credit card application, and when deciding whether to increase her credit limit. Then I need to consider what information it *should* have gathered, given what it knew about Miss B and her circumstances. And, finally, whether any information ought to have led Lloyds to conclude that the borrowing in question was unaffordable for Miss B.

The regulations in force required potential lenders to carry out "proportionate checks" and prescribed nothing more – so the exact nature and depth of checks that need to be carried out in order to be proportionate vary from lending decision to lending decision. There was and is no automatic requirement for a lender to, for example, verify what a customer is telling them, or review bank statements.

In January 2016 Lloyds asked Miss B about her income and circumstances. She disclosed an annual income of £24,000; confirmed that she was living with her parents; and that her total monthly outgoings were £200. Unfortunately, given the passage of time since this application, the results of the credit check Lloyds carried out are no longer available. Its calculations suggested a very healthy monthly disposable income.

Whilst I don't find Miss B's declaration of £200 monthly outgoings plausible, especially given she said she had a dependent, I nonetheless think that under the circumstances Lloyds' checks went far enough at this stage. It was at the beginning of a lending relationship with Miss B and was entitled to rely on the information it gave her. Even though it's clear her disposable income would not have been only £200 less than her total income, she had no housing costs or utility bills to pay. So there was still likely to be a comfortable gap between her income and her financial commitments. On the basis of the information it had, I don't think Lloyds needed to carry out further checks. And I think it was fair and reasonable for it to conclude Miss B could afford the monthly repayments on this account in January 2016.

However, by the time it was considering whether to increase her credit limit in March 2017, I don't think Lloyds' checks were proportionate. This is not what the adjudicator thought, but as it ultimately makes no difference to the outcome of the complaint, there is no need for me to issue a provisional decision explaining my thinking on this point.

There are two key reasons why I think Lloyds ought to have taken further steps to understand Miss B's full financial situation by March 2017. Firstly, it had granted a large personal loan to her in February 2017 – one which was more than 50% of her annual gross income. So it knew that she had a large amount of unsecured borrowing in relation to her income with Lloyds alone. In fact Miss B had also taken out a large loan with a different lender in August 2018, which I'm satisfied Lloyds knew about, as the repayment for that loan appears to have been reflected in its assessment of what her monthly unsecured credit commitments were. As you would therefore expect, the proportion of her monthly income needed to service debt was considerable.

Secondly, there had been several late payments, and one missed payment, on the credit card account at the end of 2016. So that ought to have flagged a potential concern too. And therefore I conclude that Lloyds did not complete proportionate checks before granting this credit limit increase, despite the fact that it was an increase of less than 15% of the existing limit.

What would Lloyds have likely found and what ought it to have concluded, had it carried out proportionate checks in March 2017?

When considering this second question, our service has had the benefit of several months of bank statements to review. I accept that there was and is no requirement on a lender to obtain any particular type of information: they are permitted to source and rely on a range of evidence when assessing affordability, and so Lloyds could have opted to gather more information about Miss B's financial position in a range of ways. However, it didn't, and, in the absence of anything else provided, I'm happy to rely on the statements to demonstrate what Lloyds would most likely have discovered if it had completed proportionate checks.

Effectively, the bank statements don't show anything that ought to have led Lloyds to conclude that increasing her credit limit by £500 would lead to any harm to Miss B. Whilst her income was lower than that estimated by Lloyds, and so the proportion of her income needed to service was indeed substantial, her account was well managed, with only one example of her using an overdraft for a modest amount. She does not appear to have any dependence on borrowing at that stage and was making all repayments as required on her accounts. Generally, she seems to have had disposable income each month and the ability to spend that discretionarily on non-essential items. It seems that she continued to have no housing costs or related utility bills to pay.

Taking what the bank statements show in conjunction with Miss B's conduct of the credit card account in question, Lloyds' decision to increase the limit does not look to be problematic.

It is clear that the majority of the balance on the credit card account at this point was in relation to balance transfers that Miss B had undertaken to clear other accounts – the interest rate on this credit card being at 0%. So despite the number of late, and the one missed, payment(s), overall her use of the account looked to be well managed, and even strategic in terms of clearing more expensive debt elsewhere. Miss B's other spending on the credit card, beyond the balance transfers, was fairly limited. And there are several examples of her paying more than the minimum repayment, despite the interest rate apparently still being at 0%. The conduct of the account does not suggest someone who is reliant on borrowing or is experiencing financial difficulties.

In the round, the evidence Lloyds would have had if it had completed more thorough checks would not have led it to a different lending decision. The available information strongly suggests the borrowing ought to have been affordable and sustainable for Miss B. It therefore follows that I don't uphold this complaint.

My final decision

For the reasons I've explained above, I don't uphold this complaint and Lloyds doesn't need to do anything.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 2 November 2023.
Siobhan McBride
Ombudsman