

The complaint

Mr G complained that Lloyds Bank PLC ("Lloyds") irresponsibly granted him three personal loans (in 2009, 2014 and 2015) that he couldn't afford to repay.

What happened

Mr G took out the first loan (account number ending 3134) in January 2009. The amount was £3,000. This was repaid in January 2012, having been paid in full. The second loan of £5,000 (account number ending 9412) was opened in April 2014, and closed in June 2015 when it was repaid early and replaced by the third loan (account number ending 7221). The third loan was for £5,619.52, of which £3,000 was new borrowing. It was granted over a term of 36 months, but after Mr G fell into arrears as a result of financial difficulties, the loan was sold to a third-party debt collection firm.

Lloyds hasn't been able to provide any records for the first two loans, but I've been able to find out the amounts involved from bank statements provided by Mr G.

Mr G said Lloyds should not have given him these loans, as it should have seen from his income and expenditure that they were unaffordable. And if the correct checks had been carried out, Lloyds would've seen missed payments, and that Mr G was constantly overdrawn. Mr G further said that the last loan caused him to massively increase his overdraft to help pay priority bills for example, to the extent that he was unable to get out of it. Mr G would like the interest removed from what he still owes along with a refund of all charges and interest paid to date, and all negative information removed from his credit record.

Mr G complained to Lloyds about all this. Lloyds said it would've carried out checks before granting the loans, but, given the age of the applications, it no longer had the relevant records, and it told Mr G that it did not uphold his complaint. Mr G then brought his complaint to this service. Our investigator looked into it but didn't think it should be upheld. Mr G didn't agree, and asked for it to be reviewed by an ombudsman.

I should also say here that Lloyds initially told us that it considered that Mr G's complaint was made outside the time limits that this service has to apply. However, another ombudsman at this service looked into this and concluded that this service does have the power to consider Mr G's complaint.

I issued a provisional decision in December 2023, in which I explained why I partly disagreed with our investigator's view, and that I proposed to uphold Mr G's complaint about the third loan, but not his complaint about the first and second loans. Both parties have now responded, accepting my conclusions, so I can now issue my final 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 approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided to uphold part of Mr G's complaint. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether it's possible to determine whether Lloyds completed reasonable and proportionate checks to satisfy itself that Mr G would be able to make the repayments on each loan account in a sustainable way – and if so, whether it did so. I've also taken into account that the date of the first loan predated the introduction of Financial Conduct Authority rules, so, in considering that loan, I've looked at the relevant regulations from that period.

I set out my reasoning in my provisional decision as follows:

“Mr G sent in copies of bank statements and letters regarding his overdraft. A number of these letters were dated after the third loan was granted, so I have focused on those prior to the loan being taken out, which are therefore relevant to the lending decisions. Lloyds sent in copies of its records of Mr G's complaint, and the details it still held for the last of the three loans. It said it had no further information to provide.

We asked Lloyds to provide general details of the checks it would've used at the times when Mr G's loans were granted. It said that, when assessing applications for credit, it used automated credit decisioning, which is industry standard. In summary, its system took data from the credit reference agencies, and allocated points for each piece of relevant information, which were added up to produce an internal score. When a score reached a certain level then the application was approved. If the score did not reach this level the application was either declined, or referred for a manual review. There were different criteria for different products.

In line with the Lending Code (an industry code of practice), Lloyds' said its system considered:

- *The type and amount of credit being sought;*
- *How the customer had handled their finances in the past (from credit reference agency data);*
- *Internal credit scoring techniques*
- *Income as declared by the customer.*

Lloyds said its lending process didn't involve the manual review of bank statements.

As I explained above, Mr G took out three loans, so I've looked at each in turn. The information I have is limited – I don't have details of the individual checks Lloyds carried out on Mr G's applications, and nor do I have a copy of Mr G's credit history for the relevant period. However, I've looked at the bank statements and information provided by Mr G to see what I can establish about his circumstances at the time of each loan.

Loan ending 3134 - January 2009

I can see from Mr G's bank statements from July 2008 to May 2009 that the amount borrowed on the first loan was £3,000, and the monthly payment was £115.32. I don't have information about the purpose of the loan.

In the months leading up to the loan being granted, Mr G's monthly income varied but the average over the preceding six months was around £1,000.

Mr G's recollection of his monthly outgoings was that he was paying rent of around £350, and contributing around £300 to other bills and food costs with his then partner. He said he had a credit card and a mail order account, and mobile phone bills, and thought outgoings on these were about £180. However, I don't know what balances were outstanding on the credit card and mail order accounts.

I can see from the bank statements that Mr G was going into overdraft just before he got paid, but this didn't exceed £100, and it looks as though this was an arranged overdraft. I can see payments to a mail order company, although not to a credit card provider until after the loan was granted. The payments to the mobile phone company were fairly regular and small amounts, suggesting a pay-as-you-go arrangement rather than a monthly contract.

I think the overdraft and any credit card and mail order balances would've appeared on Mr G's credit record and therefore in the information that Lloyds would've drawn from the credit reference agencies and used in its assessment. Most of the other transactions shown on the bank statements were cash withdrawals or debit card transactions, rather than identifiable credit (or other) commitments, so I can't say what was discretionary spending.

I don't have any information on whether Lloyds' lending decision was automated or involved a manual review. However, from the limited information I have, I don't think Lloyds acted unfairly in granting the loan. I say this because, based on the information provided by Mr G, and in particular the bank statements, I don't have enough evidence to suggest that he was over committed, or that he didn't have sufficient disposable income to allow him to meet the loan repayments.

Therefore I don't propose to uphold this element of Mr G's complaint.

Loan ending 9412 – April 2014

Mr G sent in bank statements from December 2013 to July 2014. From these I can see that the loan granted in April 2014 was for £5,000, with a monthly payment of £243.20. Again, I don't know the purpose of the loan.

The bank statements show that Mr G's monthly income was still variable, but the average in the months leading up to the loan was around £1,500. Mr G tended to go overdrawn just before he got paid, up to about £120, but in the month before the loan was granted, this reached £1,000. However, as before, it looks as though this was an arranged overdraft.

Mr G said that he had started to get into financial difficulties by this point. He told us that in addition to his rent and living expenses (including car costs) he had mail order catalogue accounts and had started to get other loans. He recalled his outgoings as being rent of £450, and living costs (including council tax, utilities, and food) as being around £1,200.

I've looked at Mr G's bank statements for the months preceding this loan being granted. There's a direct debit of £47.50 to another lender in March and April 2014, and a few standing order payments, but again most of the entries are cash withdrawals or debit card transactions. I can't otherwise identify obvious signs of increasing credit commitments. I appreciate that Mr G has given his best recollections of what he was paying out at the time,

but I'm conscious that this was over nine years ago – and there's not enough detail on the bank statements to provide a clear picture of his circumstances.

As with the first loan, I think Mr G's overdraft and any other credit commitments would've appeared on his credit record and therefore in the information that Lloyds would've drawn from the credit reference agencies and used in its assessment. Again, I don't have enough evidence to say that he was over committed, or that he didn't have sufficient disposable income to allow him to meet the loan repayments. So I can't fairly say that Lloyds did anything wrong in granting the second loan.

Therefore I don't propose to uphold this element of Mr G's complaint.

Loan ending 7221 -June 2015

This loan was for £5,619.52, of which £3,000 was new borrowing and the rest used to repay the loan from 2014. It was granted over a term of 36 months, with a monthly payment of £202.29, but after Mr G fell into arrears as a result of financial difficulties, the loan was sold to a third-party debt collection firm in 2018.

From Mr G's bank statements, I can see that his average monthly income in the months leading up to the loan was around £1,550.

I noted above that Mr G had sent in letters about his overdraft from September 2014 onwards, and these show that his overdraft limit was increased quite frequently between then and the third loan being granted. Mr G has also mentioned a second current account, which was also in overdraft, although I don't have the statements for this second account.

Mr G said that when this loan was granted, he was the only income earner in the household, supporting a family of four. He said he had other loans and credit cards, and was using payday loans. His recollections of his outgoings were that the monthly rent was £400, and living expenses were around £1,300. In addition, he was making the payments on the previous loan.

As with the previous loans, many of the entries on the bank statements are cash withdrawals or debit card transactions, so it's difficult to identify the level of his other credit commitments (apart from the existing Lloyds loan). But the bank statements show that, by this point, Mr G's account was going into overdraft every month, within a few days of his salary being paid. So his account was virtually always overdrawn.

I don't know what checks Lloyds carried out before granting this loan, so I can't know whether the application was approved automatically or subject to manual review. But it seems to me that Mr G's borrowing behaviour in terms of his steadily increasing overdraft ought reasonably to have prompted a more detailed review of his income and outgoings.

I think such a review would've shown that the monthly repayments on the new loan were unlikely to be sustainable. I say this because, although I accept that the monthly payments were slightly lower than those on the previous loan, taking account of the increased family commitments Mr G has mentioned, and the frequent increases in – and use of – his overdraft (as evidenced by the statements and letters he has sent in) I'm not satisfied that he was left with enough disposable income to manage those repayments sustainably. It looks as though the payments would effectively have had to be made from the overdraft. So I'm not satisfied that Lloyds acted fairly in granting this loan to Mr G.

Therefore I propose to uphold this part of Mr G's complaint."

As I noted, both parties responded to say that they accepted my provisional decision. On that basis, I have no reason to change my conclusions, and therefore I am upholding Mr G's complaint about the third loan, but not his complaint about the first and second loans.

Putting things right

I think it's fair and reasonable for Mr G to repay the capital that he borrowed in 2015, because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him. Lloyds must put this right.

Lloyds should buy the loan back if it is able to do so and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below:

It should:

- remove all interest, fees and charges applied to this loan (account number ending 7221) from the outset. The payments Mr G made should be deducted from the new starting balance – the £5,619.52 originally lent.
- if, once all adjustments have been made, this shows that Mr G has made overpayments leading to a credit balance, these overpayments should be refunded to Mr G, together with interest at 8% simple a year* from the date they were made to the date of settlement.
- if, once all adjustments have been made, this shows that Mr G still has an outstanding amount to repay, Lloyds should contact Mr G to arrange a suitable repayment plan.
- Lloyds should remove any adverse information it has recorded on Mr G's credit file in relation to this loan.

*HM Revenue & Customs requires Lloyds to deduct tax from any award of interest. It must give Mr G a certificate showing how much tax has been taken off if he asks for one.

My final decision

I have decided to uphold Mr G's complaint about the loan granted in 2015, but not his complaint about the loans granted in 2009 and 2014, and to require Lloyds Bank PLC to pay Mr G the compensation I've described.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 19 January 2024.

Jan Ferrari
Ombudsman