DRN-4327669

The complaint

Miss S complains that Lloyds Bank PLC irresponsibly gave her a fixed sum loan agreement she couldn't afford to repay.

What happened

In June 2019, Miss S applied for a fixed sum loan agreement with Lloyds. She was given a loan for £10,000. She was required to repay 84 monthly payments of around £177. Miss S complained to Lloyds in November 2022 to say that it shouldn't have given her the loan because it had been unaffordable to her from the outset. She said she already had a number of existing debts, including another loan and credit card from Lloyds.

Lloyds didn't think it had acted unfairly when it granted the loan. It said it had completed adequate affordability checks which included taking information from Miss S' application about her income and expenditure. It says these checks didn't reveal any affordability concerns.

Our investigator didn't recommend the complaint be upheld. He was satisfied that Lloyds hadn't made an unfair lending decision.

Miss S didn't agree so the complaint has been passed to me for 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.

Before lending to Miss S, Lloyds needed to ensure it completed reasonable and proportionate affordability checks. What is proportionate will vary with each lending decision as there isn't a one-size-fits-all approach to what specific checks need to be completed. In deciding what would be proportionate, Lloyds needed to take into account things such as (but not limited to): the amount borrowed, the size of the regular repayments, the term, the cost of borrowing and Miss S' circumstances.

Miss S applied for the loan online and stated on the application that she had a monthly income of £3,373 and paid £252 per month towards housing. Lloyds completed a credit check which showed that Miss S had existing monthly credit commitments of around £475. It showed that she had no arrears or recent defaulted debts. It also used statistical data to estimate her likely essential living costs which it determined to be £394. Taking all of this into consideration it concluded that Miss S had sufficient disposable income to afford the new loan repayments.

I've considered that only one month before this loan application Lloyds had agreed a credit limit increase on Miss S' Lloyds credit card. As part of that lending decision, Lloyds tells us it recorded an income figure of £1,849 for Miss S. This was a significant discrepancy from what Miss S declared one month later. I think this ought to have prompted Lloyds to complete more thorough affordability checks before granting the loan.

I'm mindful that Miss S held a current account with Lloyds which contained details of her regular income and expenditure. I consider it reasonable and proportionate for Lloyds to have taken into consideration everything it already knew about its customer before lending to them. I'm not suggesting it needed to complete a manual review of her bank statements, but at the very least, taken into consideration key data points that were readily available to it – such as Miss S' income and general account management.

Having reviewed her bank statements, I've seen that Miss S received income into her account that was broadly the amount she had declared on the application. This was a combination of wages, benefits and regular contributions from her partner and a relative.

Miss S has sought to argue the payments from her relative shouldn't be taken into consideration as part of her income. However, those payments from her relative were regular and consistent. Further, their inclusion helped to bring her income up to around the figure she had declared on the application. For these reasons, I can't fairly say it would have been unreasonable for Lloyds to consider it as income if it had reviewed payments coming into her account.

Having considered Miss S' account activity, including the level of income and expenditure, I've seen nothing to indicate that Lloyds ought to have been concerned about her ability to sustainably repay the loan, even if it had reviewed her account management and spending further.

Miss S says that she took out another loan with a different lender a few weeks before this one. She said the monthly repayments on that loan were £352 per month and would have shown the Lloyds loan was unaffordable to her. Lloyds says it didn't see this loan in the credit checks it completed and from what it has provided of those checks, I'm satisfied that appears to be the case. Given that the previous loan was taken out so recently, I don't find that particularly surprising as credit file information is rarely updated immediately.

I note that Miss S says that proportionate affordability checks should also have included a manual review of bank statements she held with other providers (which would have shown her most recent loan). However, in the specific circumstances of this complaint I don't agree that would have been reasonable or proportionate.

Given Lloyds already had access to what appeared to be Miss S' main current account and which would have revealed no affordability concerns, I don't think Lloyds would have needed to do further manual checking. This is because Miss S' income and regular living expenditure was visible on the Lloyds account and there were no obvious signs of financial difficulty on those statements, or in the credit checks it completed.

Taking everything into account, I don't think Lloyds made an unfair lending decision. However, I remind Lloyds of its obligation to treat Miss S fairly if she is now in financial difficulty and struggling to repay the borrowing.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 29 December 2023.

Tero Hiltunen
Ombudsman