

Complaint

Mrs M has complained about an overdraft that TSB Bank plc (“TSB”) provided to her. She says the overdraft she was provided with was unaffordable for her.

Background

TSB provided Mrs M with an overdraft that had a limit of £500 in November 2020. The credit limit on the facility was never increased.

When it reviewed Mrs M’s complaint TSB didn’t think that it had done anything wrong. Nonetheless, it any event agreed to refund all of the interest added to the account. Mrs M was dissatisfied and referred her complaint to our service.

One of our investigators reviewed what Mrs M and TSB had told us. And he thought TSB hadn’t done anything wrong or treated Mrs M unfairly in relation to providing the overdraft. So he didn’t recommend that Mrs M’s complaint be upheld and thought that what TSB had already done to put things right was fair and reasonable.

Mrs M disagreed and asked for an ombudsman to look at the 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 Mrs M’s complaint.

TSB needed to make sure it didn’t lend irresponsibly. In practice, what this means is TSB needed to carry out proportionate checks to be able to understand whether Mrs M could afford to repay any credit it provided.

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.

I understand that TSB agreed to Mrs M’s initial application after it obtained information on her income and carried out a credit search. And the information obtained indicated that Mrs M would be able to make the monthly repayments required to sustain this overdraft. On the other hand Mrs M says that she shouldn’t have been lent to.

I've considered what the parties have said.

What's important to note is that Mrs M was provided with a revolving credit facility rather than a loan. And this means that TSB was required to understand whether a limit of £500 could be repaid within a reasonable period of time, rather than all in one go. It's fair to say that an overdraft of £500 required relatively low credits in order for the full amount owed to be cleared within a reasonable period of time.

TSB has not provided the output of the credit checks that it carried out. Nonetheless, despite having been given the opportunity to do so, Mrs M hasn't provided anything to show that she had defaulted accounts, missed payments, short-term lending or high-cost borrowing at the time. So I've not seen anything to indicate that what was on Mrs M's credit file itself meant that TSB shouldn't have provided her with this overdraft.

Furthermore, as Mrs M was an existing TSB current account holder, I understand that there wasn't anything on there to suggest that she was significantly indebted either. I fully accept it's possible that Mrs M's position might have been worse than what it looks like on the information from the information gathered, or that it worsened after the overdraft was provided. I know that Mrs M has referred to gambling and the fact that her salary wasn't being paid into her TSB account.

But any gambling would have been using Mrs M's own funds. And I don't think that this in itself meant that Mrs M shouldn't have been lent to. This is particularly as Mrs M was being provided with such a low credit limit. Equally, while Mrs M wasn't having her salary paid into this account, I don't think that this means that she shouldn't have been lent to either.

Indeed, if I follow Mrs M's argument to its logical conclusion, this would mean that a prospective borrower would only be able to obtain credit in the form of an overdraft on the account their salary was being paid into. And there simply isn't any expectation that's how overdrafts, or credit more widely should only ever be provided in these circumstances.

Mrs M may have ended up gambling the funds from this overdraft. But it wouldn't be fair and reasonable for me to use hindsight here, or say that TSB should have known that this would be the case at the time it was making its lending decision. This is especially as the rest of the available information indicates that Mrs M could, in any event, repay what she could owe within a reasonable period, in the event that she did gamble the low amount of credit provided.

For the sake of completeness, I've also considered the position in relation to Mrs M's overdraft usage once the facility was granted. However, I've seen that TSB did not allow Mrs M to continue using her overdraft or provided with additional credit that it ought to have seen was unsustainable. This might have been because Mrs M abandoned the account shortly afterwards but even if this was the case, Mrs M's debt didn't continue increasing unsustainably.

In these circumstances, it's difficult for me to say that TSB acted unfairly. Furthermore, if Mrs M is having difficulty repaying the balance that remains, I would encourage her to get in contact with and co-operate with TSB so that a plan can be set up and that she can reduce and then clear what she owes.

Overall and having carefully considered everything, I don't think that TSB treated Mrs M unfairly or unreasonably when providing her with her overdraft. And I'm not upholding Mrs M's complaint. I appreciate this will be very disappointing for Mrs M. 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 Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 8 April 2024.

Jeshen Narayanan
Ombudsman