

Complaint

Mr J has complained about a credit card limit increase Lloyds Bank PLC (“Lloyds”) provided to him. He says that his credit limit shouldn’t have been increased as he couldn’t afford it.

Background

Lloyds increased the credit limit on Mr J’s credit card account to £6,000.00 in April 2022.

While Lloyds provided Mr J with a credit card in October 2010 and then increased the credit limit to £5,500.00 in October 2016, we’ve already explained why we’re unable to look at Mr J’s complaint about matters prior to July 2017 and this decision is solely looking at the decision to increase Mr J’s credit limit to £6,000.00 in April 2022.

One of our investigators reviewed what Mr J and Lloyds had told us. And she thought Lloyds hadn’t done anything wrong or treated Mr J unfairly in relation to providing the credit limit increase in April 2022. So she didn’t recommend that Mr J’s complaint be upheld.

Mr J 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 Mr J’s complaint.

Having carefully considered everything, I’ve not been persuaded to uphold the complaint. I’d like to explain why in a little more detail.

Lloyds needed to make sure it didn’t lend irresponsibly. In practice, what this means is Lloyds needed to carry out proportionate checks to be able to understand whether Mr J 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.

Lloyds says it initially agreed to offer Mr J a credit limit increase after it checked his income and carried out credit searches. And the information obtained indicated that Mr J would be

able to make the monthly repayments due for this credit limit increase. On the other hand Mr J says that he shouldn't have been lent to.

I've considered what the parties have said about the limit increase.

What's important to note is that Mr J was provided with a revolving credit facility rather than a loan. This means that Lloyds was required to understand whether a credit limit of £6,000.00 could be repaid within a reasonable period of time, rather than all in one go.

It's fair to say that a credit limit of this amount required relatively sizeable monthly payments in order to clear the full amount owed within a reasonable period of time. Although, in practical terms it should be noted that Lloyds was only offering to increase Mr J's credit limit from £5,500.00 to £6,000.00. So it was only really offering Mr J an extra £500.

For this credit limit increase, Lloyds' credit checks did indicate that Mr J hadn't had any recent difficulties with credit in the form of defaults or county court judgements ("CCJ"). Furthermore, while I appreciate that Mr J will not agree with this, I do think that Mr J wasn't heavily indebted considering his income at the time.

I also think that it's worth noting that Mr J's actions in making significantly larger payments in some of the months leading up to this application and his general repayment record did indicate that he might be able to make the payments on a higher credit limit too.

Nonetheless, given the amount of the likely increased monthly payments required to clear the full balance within a reasonable period of time, I do think that there is a reasonable argument for saying that it would have been reasonable and proportionate for Lloyds to find out a bit more about Mr J's regular living costs before offering the credit limit increases. As I can't see that Lloyds did this, I don't think that the checks it carried out were reasonable and proportionate.

Where a firm failed to carry out reasonable and proportionate checks before providing credit to a customer, I'd usually go on to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. In doing so, I have noted what Mr J has said about his overdraft usage and his reliance on this as a justification for his complaint about the limit increase on his credit card being upheld.

However, I don't think that it automatically follows that a prospective borrower shouldn't have been lent to simply because they might be using an overdraft. I am aware of the way Mr J says he was using his overdraft as well as the generally accepted practice on how such facilities should be used.

But the fact that Mr J may not have been using his overdraft in line with its purpose, is a reason why it might have been appropriate for Lloyds to have taken corrective action in relation to that facility. It does not automatically follow that he shouldn't have been provided with the modest credit limit increase he was offered on this credit card.

More importantly, as Lloyds has already upheld Mr J's overdraft complaint covering the period when this credit card limit increase was offered, he has already been placed in the position he would be in had he not had the overdraft balance he did at this stage. As this is the case, I don't think that it would now be fair and reasonable for me to now 'double count' Mr J's overdraft usage by assessing Mr J's credit card complaint, as if Mr J's overdraft balance remains the same, in circumstances where Lloyds has taken action to rectify matters.

For the sake of completeness, I would also add there isn't anything within the information in Mr J's bank statements (in the leadup to Mr J limit increase being offered) which clearly contradicts the amounts Lloyds used in relation to Mr J's living costs, or shows that obtaining further information on Mr J's regular living costs would have led to it deciding against it lending to him. In these circumstances, I can't reasonably conclude that Lloyds would have made a different decision on lending even if it had asked Mr J for more information.

It's possible that Mr J's position might have been worse than what it looks like, or that it might have worsened after the credit limit increase took place. For example, I can see that Mr J has referred to his income reducing. But, in any event, it seems as though Mr J rarely used the extra credit granted as a result of this limit increase and even then this was only for short periods. I don't think that it would be fair and reasonable for me to take into account circumstances which Lloyds was not (and couldn't reasonably have been expected to be) aware of either.

I've also considered what Mr J has said in relation to the way that Lloyds viewed his credit card usage and that it failed to manage his account. Having done so, it seems to me that Mr J is relying on many of the same arguments that he made in relation to the way that Lloyds reviewed his overdraft.

However, Lloyds didn't make a commitment to review Mr J's credit card account annually, in the same way that it committed to reviewing his overdraft in line with the generally accepted practice for that product. It's also worth me adding that it isn't generally expected that a lender will carry out such reviews on a credit card in the same way – particularly as the lender will not usually be able to attain the same level of understanding about a customer's overall circumstances from credit card statements as it would from bank account statements. So I don't think that Lloyds' not carrying out similar reviews on Mr J's credit card, in itself, means that Lloyds failed to act fairly and reasonably in this instance.

There are separate regulatory rules in relation in to when a credit card account enters into persistent debt and when a lender should take eventually suspend further spending on a customer's credit card. As far as I can see, Mr J's repayments haven't seen him enter into the final stage of the persistent debt process.

Nonetheless, I can see that Lloyds did proactively take steps to reduce the credit limit on Mr J's credit card to £5,400.00 in December 2022. So, in any event, it's clear to see that Lloyds was monitoring Mr J's credit card account – albeit not in the same way as it was supposed to be reviewing his overdraft. And I've not seen anything to indicate that Mr J's usage of his credit card ought to have prompted Lloyds to have taken such action earlier. In these, circumstances, I've not been persuaded that Lloyds failed to act fairly and reasonably in terms of failing to intervene as a result of the way Mr J used his credit card either.

Overall and having considered everything, while I can understand Mr J's sentiments, I don't think that Lloyds treated Mr J unfairly or unreasonably when increasing his credit limit or in allowing him to use his card in the way that he did. So I'm not upholding Mr J's complaint. I appreciate this will be very disappointing for Mr J – particularly as his complaint about his overdraft has been partially upheld. But I hope he'll understand the reasons for my decision on this particular case and that he'll at least feel his concerns have been listened to.

Although I'm not upholding this complaint, I'd like to remind Lloyds of its obligation to exercise forbearance and due consideration (now that it is aware of Mr J's current position) should it be the case that Mr J is struggling to make his credit card payments as he is experiencing financial difficulty. I would also encourage Mr J to get in touch with and cooperate with Lloyds in order to set up a repayment plan for the amount owing.

My final decision

For the reasons I've explained, I'm not upholding Mr J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 5 April 2024.

Jeshen Narayanan
Ombudsman