DRN-4664909

Complaint

Mrs A has complained about a loan Lloyds Bank Plc ("Lloyds") provided to her. She says that the loan was provided to her at a time when she was on maternity leave and only receiving statutory maternity pay.

Background

Mrs A has also complained about her overdraft. However, we've explained that we're looking at that matter separately and this decision is only considering whether Lloyds acted fairly and reasonably when providing her with her loan.

Lloyds provided Mrs A with a loan for £10,000.00 in May 2022. It had an APR of 5.7% and a 60-month term. This meant that the total amount to be repaid of £11,476.20, which included interest, fees and other charges of £1,476.20, was due to be repaid in 60 instalments of £191.27.

One of our investigators reviewed what Mrs A and Lloyds had told us. And he thought that Lloyds hadn't lent irresponsibly. So he didn't uphold Mrs A's complaint.

Mrs A disagreed and asked for an ombudsman to look at her 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 A's complaint.

Having carefully considered everything, I'm not upholding Mrs A's complaint. I'll explain why in a little more detail.

Lloyds needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, what this means is that Lloyds needed to carry out proportionate checks to be able to understand whether Mrs A could afford to make her repayments before providing this loan.

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 provide loans to a customer irresponsibly.

Lloyds says it approved Mrs A's application after she provided details of her monthly income and some information on her expenditure. It says it cross-checked this against statistical data and information on a credit search it carried out which showed Mrs A's had some debts but that her existing commitments were relatively well maintained at the time.

In Lloyds' view all of the information it gathered showed that Mrs A could afford to make the repayments she was committing to. On the other hand, Mrs A has said this loan was provided at a time when she was on maternity leave and when she couldn't afford it.

I've carefully thought about what Mrs A and Lloyds have said.

As Lloyds asked Mrs A about her income and expenditure and also carried out a credit check, it's clear that Lloyds did obtain a reasonable amount of information before it decided to proceed with Mrs A's application. Having looked at the credit check, it's clear Mrs A had some existing debts.

However, while I accept that Mrs A might not agree with this, I don't think that these were excessive. Furthermore, the information from the time shows that Mrs A's selected loan purpose was debt consolidation.

Lloyds won't have known whether Mrs A would actually pay off her existing balances – all it could do was take reasonable steps and rely on assurances from Mrs A that this would be done with the funds from this loan. So I'm satisfied that the proceeds of this loan could and should have been used to clear a significant proportion of the existing debt that Mrs A had and which she is now arguing meant that she shouldn't have been provided with this loan.

Equally, as this was a first loan Lloyds was providing to Mrs A, there wasn't a history of Mrs A obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. So Lloyds was reasonably entitled to believe that Mrs A would be left in a better position after being provided with this loan.

There is an argument to say that, at the absolute most, Lloyds ought to have found out more about Mrs A's actual regular living expenses, rather than relying on statistical data, bearing in mind the monthly payment and the term of this loan.

Where a firm failed to carry out reasonable and proportionate checks before providing credit to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information provided to get an idea of what Lloyds is likely to have learned if it had found out more about Mrs A's actual regular living expenses. In particular, I've looked at Mrs A's current account statements for the period leading up to the loan application.

In doing so, I've noted that Mrs A has said that this loan was provided to her at a time where she was on maternity leave. However, Mrs A did not declare this and instead quoted her income from prior to receiving statutory maternity pay. And, in any event, Mrs A made this application just before her income was about to reduce. So, in these circumstances, I don't see how Lloyds could possibly have known that Mrs A's income was about to reduce.

Furthermore, the statements provided do appear to show that when Mrs A's regular living costs and monthly expenditure are deducted from what she received, Mrs A does appear to have enough in funds left over to make the repayments needed for this loan. This is particularly the case when the payments to the debts which should have been consolidated are removed from Mrs A's expenditure as they should be.

As this is the case, I don't think that Lloyds did anything wrong when providing this loan to Mrs A - it is arguable that it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

But even if Lloyds had asked Mrs A for more information about her regular living costs and contractually committed expenditure here this wouldn't have made a difference to its decision to lend. In my view, this would simply reinforced the notion that if Mrs A did go on to repay her existing debts with the proceeds from this loan as her recorded loan purpose said she would, she would have been in a significantly better financial position.

So overall and having considered everything, I'm satisfied that Lloyds didn't treat Mrs A unfairly or unreasonably when lending to her. And I'm not upholding Mrs A's complaint. I appreciate this is likely to be very disappointing for Mrs A. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Mrs A's complaint, I would remind Lloyds of its obligation to exercise forbearance and due consideration, given what Mrs A has now said about her position, should Mrs A be experiencing financial difficulty making her payments going forward when collecting these payments from her.

My final decision

For the reasons I've explained, I'm not upholding Mrs A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 9 April 2024.

Jeshen Narayanan
Ombudsman