DRN-4788193

The complaint

Miss M is complaining about Lloyds Bank PLC because she says it lent irresponsibly by giving her a loan she couldn't afford.

What happened

In April 2022, Miss M took a loan with Lloyds for £7,500. It was repayable over 36 months at £282 per month.

Our investigator didn't conclude the complaint should be upheld. He felt Lloyds was entitled to believe the loan repayments were affordable and that it made a reasonable decision to lend.

Miss M didn't accept the investigator's assessment and made the following key points:

- She was in financial difficulty at the time and her income was less than her expenses;
- her monthly income was less than the £2,300 used by Lloyds in its calculation – she actually earned around £1,010 per month and received universal credit of £880; and
- when her rent and other commitments are taken into account, it's clear she couldn't afford the monthly loan repayments.

The complaint has now been referred to me for review.

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.

Having done so, I've reached the same overall conclusions as the investigator. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

Before lending to Miss M, Lloyds was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider are:

- Did Lloyds complete reasonable and proportionate checks to establish Miss M would be able to repay the loan in a sustainable way?

- If so, was the decision to lend fair and reasonable?

- If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?

Lloyds has described the information it gathered to assess whether Miss M's loan was affordable before it was approved. This included:

- information contained in her application, including residential status, employment status and her income;
- information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit; and
- an expenditure assessment using a combination of modelled data for key expenses, along with actual data from the CRA about the cost of her existing credit arrangements.

In making her application, Lloyds' records indicate Miss M declared her monthly income was £2,300. In respect of her existing commitments, her monthly housing costs were recorded as £400 and Lloyds' credit check reported her existing credit commitments were £395. After estimating her other essential expenditure, Lloyds calculated Miss M had a monthly disposable income of around £1,000 that could be used to meet loan repayments.

After revieing the information Lloyds would have seen at the time, I'm mindful that Miss M had taken out another loan the previous month. In view of this, and the fact she was asking to borrow a significant amount from Lloyds, I think it's reasonable to believe the bank should have carried out more detailed checks and that an affordability assessment based partly on modelled statistical data wasn't proportionate in this case.

I can't know exactly what further checks Lloyds might have carried out at the time, but I think a consideration of Miss M's actual income and expenditure would have been reasonable. To establish what information could reasonably have been discovered, and therefore allow me to assess whether the lending was appropriate, I've reviewed Miss M's bank statements for the period before the loan was agreed.

As Miss M has stated, her statements show her income was lower than £2,300 and the figure of £1,890 she's referred to seems more realistic. I am conscious some of this was made up of universal credit but I don't think that means it shouldn't have been taken into account in assessing affordability.

In terms of her expenditure, Miss M has provided a copy of a rent agreement showing her and her partner were paying £775 per month and the figure of £400 used by Lloyds for her housing costs appears to be a reasonable estimate of her share of this cost. In terms of her existing credit commitments, the statements show she was paying £323 per month to three creditors (Lendable, Creation and Barclays). Miss M has also told us that she paid a total of £247 for council tax, gas and car insurance. This expenditure totals nearly £1,000 per month, leaving around £900 for other expenditure, including the loan repayment to Lloyds.

I've no doubt Miss M had other expenses in addition to those noted above, but a review of her bank statements shows her account retained a positive balance throughout the period before the loan was approved and I don't think there was any indication she was struggling financially at this point and she seemed to be managing her existing commitments well enough.

On balance, if Lloyds had completed a proportionate affordability assessment taking account of Miss M's actual income and expenditure, I think it would still have been entitled to believe the loan repayments were affordable and I'm therefore satisfied the decision to lend was reasonable.

In reviewing this complaint, I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Lloyds lent irresponsibly to Miss M or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

Finally, Miss M has recently told us she used the loan to fund what she thought were investments she discovered online that turned out to be fraudulent. I was really sorry she's been the victim of this type of scam and I understand losing such a large sum of money in this way must be very difficult to take. But in terms of this complaint, Lloyds records indicate Miss M said the purpose of the loan was for home improvements when she applied. I've seen nothing to suggest Lloyds could have known how the loan would actually be spent such that it could reasonably have been expected to prevent any losses that resulted.

Miss M made the payments to the fraudulent investments from an account with another bank and I note she says she hasn't reported this situation to that bank, instead concentrating on pursuing Lloyds for providing the loan in the first place. She should be aware that there are processes in place by which customers can recoup money lost to fraud through their bank in some circumstances. I don't have enough information to say whether a claim by Miss M would be successful, but if she believes she's been the victim of fraud she should think seriously about contacting the bank through which she made the payments to see if it can do anything to assist her.

It's for these reasons that I'm not upholding Miss M's complaint. I realise this outcome will be disappointing for her, but I'm satisfied it's fair and reasonable in the circumstances and I hope the additional explanation is helpful.

My final decision

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 12 August 2024.

James Biles
Ombudsman