

## **The complaint**

Ms M complains about Lloyds Bank PLC's decision to approve her overdraft limit of £600. Ms M also complains about the interest, fees and charges applied to her overdraft over the years.

## **What happened**

In May 2020 Ms M applied for an overdraft with Lloyds. In her application, Ms M said she had an income of around £1,600 a month. Lloyds says it reviewed Ms M's application and the information it know about her and approved an overdraft limit of £600 on 4 May 2020.

Since May 2020 Ms M has continued to regularly use the overdraft facility. Earlier this year, Ms M complained about the decision to approve her overdraft application and the level of charges applied since May 2020. Lloyds issued a final response on 4 February 2024 but didn't uphold Ms M's complaint. Lloyds said it had checked Ms M's credit file and applied the necessary lending checks before deciding whether to proceed. Lloyds also said it had carried out annual reviews of Ms M's overdraft but hadn't found any significant signs of financial difficulty. Lloyds added that better account management would lead Ms M to be able to repay the overdraft facility within 12 months. Lloyds paid Ms M £100 and agreed to suspend interest for a month as a gesture of goodwill.

Ms M referred her complaint to this service and it was passed to an investigator. They weren't persuaded Lloyds lent irresponsibly when it approved Ms M's original overdraft application. But the investigator thought that Ms M was showing clear signs of being in financial difficulty by May 2021, when Lloyds carried out an annual review of the overdraft. The investigator noted Ms M had 21 returned direct debits in the four month period before the annual review was completed. They also highlighted a high reliance on the overdraft facility to make ends. The investigator thought that by this point Lloyds should've shown some forbearance rather than having further interest, fees and charges applied to the overdraft.

Lloyds asked to appeal and noted that whilst Ms M did have a high level of returned direct debits, its view is that they came about due to the way she'd managed the account and spending on non essential items. Lloyds provided analysis of Ms M's income and essential living costs and said they showed her income was sufficient to sustainably repay the overdraft within 12 months. Lloyds didn't agree it had failed to step in and provide reasonable assistance to Ms M or failed to pick up she was struggling financially. Lloyds asked to appeal so Ms M's complaint has been passed to me to make 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 agreeing to lend, the rules say Lloyds had to complete reasonable and proportionate checks to ensure Ms M could afford to repay the debt in a sustainable way. These

affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

Here Lloyds has shown it reviewed Ms M's credit file and existing account use before deciding whether to proceed. Lloyds also asked Ms M to provide information about her circumstances in the application she made. Ms M said her income was around £1,600 a month. Lloyds has provided bank statements for Ms M's account and that shows the funds received into her account in the months before her application was approved was actually somewhat higher than that figure. I'm satisfied Lloyds also reviewed Ms M's credit file and took that information into account as well. Lloyds approved an overdraft with a limit of £600. In my view, the level and nature of checks Lloyds completed was reasonable and proportionate to the overdraft facility it approved. I haven't been persuaded Lloyds lent irresponsibly when it approved the overdraft application.

Looking at Ms M's bank statements in the months that followed, she began to use the overdraft facility on a consistent basis. From June 2020, Ms M's account balance was generally overdrawn, incurring daily charges. For instance, in June 2020, Ms M's account balance was only in credit for one day, when she was paid on 30 June 2020. By 2 July 2020 the account balance had returned to an overdrawn position until Ms M was paid again on 31 July 2020. This pattern repeated in the months that followed.

As the investigator also noted, in the months leading up to the annual overdraft review in May 2021, Ms M had a large number of returned direct debits. Ms M routinely had to make up payments various businesses after direct debits weren't paid due to insufficient funds.

I take Lloyds' point that there is non essential spending on Ms M's account. But I've seen no evidence that Ms M's account use was materially different to the period before the overdraft was approved. And the non essential spending Lloyds has raised is reasonably low level and consisted of some takeaways and online shopping. I haven't been persuaded that the non essential spending on Ms M's account is the deciding factor in her case.

Lloyds has provided a copy of an overdraft usage letter it sent Ms M in March 2021. But I think an intervention in May 2021, when the annual review was due, would've been more reasonable in the circumstances of Ms M's case. Lloyds says any unilateral action to remove the overdraft facility would've been likely to cause Ms M financial harm. But that wasn't Lloyds' only option and it could've considered whether continuing to apply charges to Ms M's account to service the overdraft facility was adding to Ms M's situation.

I agree with the investigator that there were reasonably clear signs Ms M was struggling by May 2021. And I'm satisfied Ms M's bank statements show she'd become reliant on the overdraft facility to make ends meet each month, incurring daily charges for the service. I'm satisfied it should've been clear to Lloyds by May 2021 that Ms M needed more direct support and that it should've treated her with some forbearance. In the circumstances of Ms

M's case, I agree with the investigator that the decision to continue applying daily overdraft charges to Ms M's account was unfair. So in addition to the £100 Lloyds has already paid Ms M, I'm going to tell it to refund all interest, fees and charges applied to the overdraft from 4 May 2021 onwards.

### **My final decision**

My decision is that I uphold Ms M's complaint and direct Lloyds Bank PLC to settle as follows:

- Re-work Ms M's current overdraft balance so that all interest, fees and charges applied to it from 4 May 2021 onwards are refunded.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Ms M to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Ms M's credit file, it should backdate this to 4 May 2021

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Ms M, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Lloyds should remove any adverse information from Ms M's credit file from May 2021 onwards. †

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Ms M a certificate showing how much tax it's taken off if she asks for one

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 15 July 2024.

Marco Manente  
**Ombudsman**