

The complaint

Mr W complains that Lloyds Bank PLC lent irresponsibly when approving his overdraft limit and later increasing it.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

In June 2018 Mr W applied for an overdraft of £500 with Lloyds. In his application, Mr W confirmed he was self employed with an income of £2,000 a month. Mr W said he was renting at £400 a month and had other regular outgoings of £420. Lloyds carried out a credit search and didn't find any adverse information or other open credit in Mr W's name. Lloyds applied its lending policy as well as an estimate of other living expenses and says Mr W had around £872 a month as disposable income. Lloyds approved Mr W's overdraft of £500.

In November 2018 Mr W applied to increase his overdraft limit to £1,000. Mr W confirmed he was earning £2,000 and had regular commitments of £509 plus rent of £269. Lloyds looked at Mr W's credit file and found he was making regular payments of £8 a month. Lloyds says that after Mr W's essential living expenses and credit commitments were paid he had around £1,070 remaining each month. Lloyds approved Mr W's overdraft limit of £1,000.

In December 2018, Mr W applied to increase his overdraft limit to £2,000. Mr W provided largely the same information as in November 2018 and Lloyds checked his credit file again, finding he had no new commitments. Lloyds went on to approve the overdraft limit of £2,000.

Mr W reduced the overdraft limit to £1,500 in January 2019 and £500 in in June 2019.

In October 2019 Mr W applied to increase the overdraft limit to £2,000. In his application, Mr W said he was earning £2,400 a month with rent of £490. Lloyds looked at Mr W's credit file and found he had commitments of £91 a month and applied essential living costs of £434 to the application. Lloyds calculated Mr W had around £1,324 in disposable income each month and approved Mr W's overdraft limit of £2,000.

In January 2022 Mr W applied to increase his overdraft limit to £5,000. Again, Mr W said he was earning around £2,400 each month and had rent of £400 plus regular outgoings of £400. Lloyds found Mr W had regular credit commitments of £123 a month. Lloyds says Mr W had around £1,043 in disposable income each month. Following a manual review of Mr W's request, an overdraft limit of £3,500 was applied.

Mr W has continued to operate his account using the overdraft facility. Lloyds says it contacted Mr W about his overdraft use in 2022 and 2023 due to the amount of time he'd spent overdrawn.

Representatives acting on Mr W's behalf complained about Lloyds' decisions to approve his overdraft limits over the years. Lloyds issued a final response but didn't agree it had lent irresponsibly and didn't uphold Mr W's complaint. An investigator at this service looked at Mr

W's case. They thought Lloyds' decision to approve the initial overdraft limit of £500 in June 2018 was reasonable. But the investigator noted Mr W's income in the months before his application was lower than declared in the application. They also thought Mr W had quickly become reliant on the overdraft to make ends meet and was struggling financially. The investigator asked Lloyds to refund all interest, fees and charges applied after November 2018.

Lloyds asked to appeal and pointed out that Mr W had successfully reduced his overdraft limit from £2,000 to £500 by June 2019 – demonstrating he was able to repay the outstanding balance. Lloyds provided analysis of Mr W's income and outgoings and felt they showed Mr W's overdraft use was sustainable. Lloyds said Mr W had remained overdrawn on the basis of non essential spending habits rather than irresponsible lending on its part. As Lloyds asked to appeal, Mr W's complaint has been passed to me to make a decision.

What I've provisionally 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 or increasing the credit limit, the rules say Lloyds had to complete reasonable and proportionate checks to ensure Mr W 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.

I'm sorry to disappoint Mr W but I've reached a different conclusion to the investigator and haven't been persuaded that Lloyds lend irresponsibly. I'll explain why.

When Mr W first applied for the overdraft, he provided basic information about his circumstances, including his income and outgoings. Lloyds also checked Mr W's credit file. I note no adverse credit or recent missed payments were found. And Lloyds didn't identify any regular credit commitments. I'm satisfied Lloyds applied reasonable outgoings to Mr W's application and reached a fair disposable income figure of £872 a month. The overdraft was £500 which meant Mr W would've been able to repay it in a reasonably short period. I'm satisfied the level and nature of checks Lloyds completed were proportionate to the amount and type of credit Mr W was applying for. I haven't been persuaded Lloyds lent irresponsibly.

I can see that in the months after the £500 limit was approved Mr W was regularly overdrawn. But looking at Mr W's bank statements, they don't show a significant increase in Mr W's outgoings for essential living expenses. There's no evidence of significant new borrowing or a change in Mr W's circumstances overall. Lloyds' credit search didn't identify a significant increase in Mr W's borrowing costs or find any new adverse information. I'm satisfied Lloyds took the information Mr W provided in his application into account. And I'm

satisfied that it was reasonable for Lloyds to proceed with an increase in the overdraft limit to £1,000 in November 2018. I haven't been persuaded that Lloyds lent irresponsibly.

Mr W applied for another increase in December 2019. Given how close this was to the previous credit limit increase, I think Lloyds should've carried out further checks before deciding whether to proceed. A review of his previous statements would've been a reasonable option. I've looked at Mr W's accounts for the months before his application was made.

Whilst I can see Mr W's income was somewhat lower than the figure he declared in the application, I think it's fair to note he was self employed which often means a more variable income. I've paid particular attention to Mr W's regular outgoings for items like credit and essential living expenses. I can see regular payments for TV subscriptions, insurance, a mobile phone and a credit card. But the payments Mr W was making were low and left him with a disposable income that appears to be somewhat higher than the figures Lloyds used. I'm sorry to disappoint Mr W but I think Lloyds would've still decided to proceed with his overdraft application if it had carried out better checks. I haven't been persuaded that Lloyds lent irresponsibly.

I agree that Mr W's overdraft use was reasonably consistent, but I think that reflects the way the account was being used rather than any financial difficulties he was experiencing at the time.

Mr W applied to increase his overdraft limit again in October 2019. As noted above, in the previous 10 months Mr W had been able to reduce his overdraft balance and limit from £2,000 to £500 so shown Lloyds he was able to manage the previous limit approved. Lloyds again asked Mr W questions about his income and outgoings which were confirmed. Mr W's other unsecured debts had increased to around £91 a month at this point, but his declared income had also gone up to £2,400 a month. Mr W provided a rent figure of £490 and Lloyds applied estimated other livings costs of £434. Lloyds calculated a disposable income figure of £1,324 a month. Whilst I understand Mr W was a repeat borrower at this time, I don't think there were grounds to say Lloyds should've gone further at this point. I think the fact Mr W took steps to reduce the overdraft from £2,000 to £1,500 in January 2019 and £500 in June 2019 shows the overdraft facility could be repaid in an affordable and sustainable way. In my view, the checks Lloyds carried out were reasonable and proportionate. I haven't been persuaded that Lloyds lent irresponsibly when increasing Mr W's credit limit to £2,000.

When Mr W applied for an overdraft limit increase to £5,000 in January 2022 it was declined. But Lloyds carried out a manual review of Mr W's application and circumstances. I've looked at Mr W's bank statements for the months preceding the January 2022 credit limit increase. In October 2021 Mr W earned £4,473.80. In November 2021 Mr W was paid £2,427.33 (in addition to other credits paid into his account). In December 2021 Mr W was paid £4,225.11. Given Mr W declared an income of £2,400 a month in his application, I'm satisfied Lloyds was working with reasonable figures when considering whether to lend. I've also reviewed Mr W's regular outgoings between October and December 2021. I'm satisfied that even using Mr W's lowest income figure of £2,427.33 his outgoings and commitments were affordable with a reasonable disposable income. I haven't been persuaded that Lloyds lent irresponsibly when approving the overdraft limit increase to £3,500.

I note the investigator's comments that Mr W's overdraft use was high and I agree. But I also think Lloyds makes a reasonable point when it says Mr W's overdraft use doesn't appear to reflect financial difficulties. I agree with Lloyds that Mr W's overdraft use reflects the way the account was managed and general spending. Of course, consumers are free to use their accounts as they wish, but for the reasons I've given above, I haven't been persuaded that Lloyds lent irresponsibly.

I invited both parties to respond with any additional comments or information they wanted me to consider before making my final decision. Lloyds responded and confirmed it had nothing further to add. We didn't hear back from Mr W.

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.

In addition to the points noted in my provisional decision, I've also considered whether the business acted unfairly or unreasonably in any other way including 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 Mr W or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

As neither party has provided any new information for me to consider I see no reason to change the conclusions I reached in my provisional decision. I remain of the view that Lloyds' decision to approve Mr W's overdraft was reasonable and haven't been persuaded that it lent irresponsibly.

My final decision

My decision is that I don't uphold Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 11 September 2024.

Marco Manente
Ombudsman