

Banking Ombudsman Scheme
Practice note: responsible lending obligations
1 September 2022

Purpose

The purpose of this practice note is to guide banks in recognising and responding to customers' concerns about responsible lending – particularly where the lending is not a consumer credit contract.¹

Introduction

The Banking Ombudsman Scheme investigates and resolves complaints from customers about their banks. The scheme can consider complaints alleging a breach of the law, industry code, or principles of good banking practice.

Concerns about responsible lending are a common complaint raised by customers with the scheme. Our approach is outlined in our [quick guide to concerns about lending decisions](#).

Bank lending obligations

Banks are required by the Code of Banking Practice to act responsibly if they offer or lend customers money. Where the lending is a consumer credit contract, bank must also comply with the provisions of the Credit Contracts and Consumer Finance Act 2003 (CCCFA), and its related regulations. The Responsible Lending Code provides further guidance on how the lender responsibility principles and the regulations may be implemented.

Scope of Code of Banking Practice obligations

Responsible lending obligations under the Code of Banking Practice apply to:

- Lending to all types of entities, including consumers, companies, trusts, charities, and partnerships
- All lending products, including home loans, personal loans, vehicle loans, credit cards, overdrafts, and business loans

¹ As per section 11 of the CCCFA, a consumer credit contract is where the debtor is a natural person, and the credit is to be used for personal, domestic or household purposes.

- Informal credit arrangements, such as unarranged overdrafts and excess credit limits.

The Code obligations apply regardless of when the lending was provided.

Application of obligations

Banks should take care to ensure that customers are only able to access credit where the bank has met its obligations. Banks should:

- Consider the customer's ability to meet their repayments, and not rely solely on measures like previous account conduct
- Follow their own lending criteria, policies and procedures
- Ensure there are appropriate system-applied limits when customers access informal credit,² and – where practicable – mitigate against any technical issues affecting those limits.

Complaint handling

Where a customer has raised concerns that a bank has provided credit irresponsibly, the bank should consider the complaint as per the guidance in our quick guide and this summary practice note. Our resolution team can provide additional case-specific advice or guidance.

Case studies

[Bank failed to assess loan application properly](#)

[Bank system allowed significant unarranged overdraft](#)

[Records revealed inadequate effort to assess whether lending affordable](#)

[Bank lent irresponsibly to customers and did not provide bank statements](#)

[Bank lends readily after inadequate assessment](#)

² Customers accessing informal credit does not include where the bank is entitled to charge an account, eg rates demands from local councils, fees and interest charges, house insurance premiums.