

The complaint

Mr B has complained that Lloyds Bank PLC (“Lloyds”) continued charging him excessive amounts for his overdraft when he was in financial difficulty.

What happened

Mr B complained to Lloyds about charges it was making for his overdraft. Lloyds didn’t uphold the complaint. It said the fees it had applied were fair and as Mr B was dissatisfied he referred the complaint to our service.

Mr B’s complaint was considered by one of our adjudicators. She thought that Lloyds ought to have realised that Mr B was experiencing financial difficulty by 18 September 2014 and so shouldn’t have added any more interest, fees and charges from this point onwards. Lloyds didn’t respond so the case was passed to an ombudsman.

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.

Lloyds will be familiar with all the rules, regulations and good industry practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So, I don’t consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I think Lloyds acted unfairly when it continued charging overdraft interest and associated fees after it renewed Mr B’s overdraft on 18 September 2014. By this point, it ought to have been clear that Mr B was in no position to sustainably repay what he owed within a reasonable period of time.

Mr B was hardcore borrowing. In other, words he hadn’t seen or maintained a credit balance for an extended period of time. His overdraft level was almost always higher at the end of every month than the wages being paid into his account and there was evidence his employment had changed and income was reduced. It was clear the overdraft was only likely to increase. Lloyds own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. So, I think that Mr B’s overdraft usage should have prompted Lloyds to have realised that Mr B wasn’t using his overdraft as intended and they shouldn’t have continued offering it on the same terms. As Lloyds didn’t react to Mr B’s overdraft usage and instead continued charging in the same way, I think it failed to act fairly and reasonably.

I also think that by the review date of 18 September 2014, Lloyds should also have noted that Mr B’s statements showed significant gambling. There were frequent payments to betting companies and to the lottery. So, it should have been clear that Mr B’s income was going to unsustainable sources. Lloyds ought to have realised that Mr B was at a significant risk of being unable to repay what he already owed. They should have stopped providing the overdraft on the same terms and treated Mr B with forbearance rather than charge even more interest, fees and charges on the overdraft.

Mr B ended up paying additional interest, fees and charges on his overdraft and this ended up exacerbating difficulties he already had in trying to clear it. So, I think that Lloyds didn't treat Mr B fairly and he lost out because of what Lloyds did wrong. And this means that it should put things right.

Putting things right

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Mr B's complaint for Lloyds to put things right by:

- Reworking Mr B's current overdraft balance so that all interest, fees and charges applied to it after the renewal on 18 September 2014 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr B to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr B's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft on 18 September 2014.

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 Mr B 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 Mr B's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr B a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr B's complaint. Lloyds should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 November 2021.

Phillip McMahon
Ombudsman