

Complaint

Mr B has complained that Lloyds Bank PLC (“Lloyds”) unfairly added interest, fees and charges to his overdraft and his credit card when he was experiencing financial difficulty.

Background

One of our adjudicators looked at this complaint and thought Lloyds should have realised that Mr B’s overdraft had become unsustainable for him by November 2014. So it needed to refund all the interest, fees and charges it added to Mr B’s overdraft from this point.

In respect of Mr B’s credit card, our adjudicator thought that Lloyds shouldn’t have provided any of the credit limit increases it did from December 2014 onwards. So it needed to refund the extra interest it charged on the credit it shouldn’t have provided.

Lloyds disagreed with our adjudicator in respect of the credit card but agreed to settle the complaint in relation to the credit card. Mr B still want the complaint about the overdraft upheld. So the complaint was passed to an ombudsman for a final decision.

As Lloyds has agreed to settle the complaint in relation to Mr B’s credit card, this decision is only looking at whether Lloyds acted fairly and reasonably in relation to Mr B’s overdraft.

My findings

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 do think that Lloyds acted unfairly when it renewed Mr B’s overdraft in November 2014.

By this point, Lloyds would have seen that Mr B had been ‘hardcore borrowing’ for pretty much the entire review period. In other words, Mr B’s account remained overdrawn for the entire review period without returning to credit.

Lloyds says that this isn’t an indication of financial difficulty or that a facility is unsustainable. But the Lending Code, which was in place at the time and which Lloyds subscribed to, clearly stated that that hardcore borrowing was a potential indicator of difficulty. So I completely disagree with Lloyds’ assertion that sustained and prolonged overdraft usage isn’t an indication of a potential problem, or that there isn’t anything to suggest that this is the case.

Lloyds has also referred to Mr B’s account having been well-credited and has also said that Mr B could have chosen to remove or reduce his overdraft. But it’s clear that Mr’s B overall position wasn’t really improving despite what it has referred to. So I think that Lloyds ought to

have seen that Mr B was already struggling to manage his overdraft and treated him with forbearance rather than renewing Mr B's overdraft in November 2014 and then adding increased interest, fees and charges to what he owed.

As Lloyds didn't react to Mr B's overdraft usage, I think it failed to act fairly and reasonably towards him. And as this led to Mr B paying additional interest, fees and charges at a time when he was already struggling to clear what he owed, I'm satisfied that he lost out as a result of Lloyds failing to act fairly and reasonably towards him. So Lloyds needs to put things right.

Fair compensation – what Lloyds needs to do to put things right for Mr B

I've thought about Mr B's request for a distress and inconvenience payment. And I'm sorry to hear about the effect Mr B has said his debts have had. But while I accept that Lloyds should have called in Mr B's overdraft. I do think that, at least, some of his difficulty was caused by his spending.

So I'm satisfied that an additional distress and inconvenience award, over and above the compensation award I'm setting out below, isn't warranted here.

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 overdraft balance so that all interest, fees and charges applied to it from November 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 Lloyds 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 account from November 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 they ask for one.

In addition to putting things right on Mr B's overdraft in the way I've set out above, Lloyds should also pay the compensation it has already agreed to pay in respect of Mr B's credit card.

My final decision

For the reasons I've explained, I'm upholding Mr B's complaint. Lloyds Bank PLC 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 26 October 2021.

Jeshen Narayanan
Ombudsman