

The complaint

Mr C has complained that Lloyds Bank PLC's changes to its overdraft pricing structure caused him financial difficulty and that Lloyds continued charging him excessive amounts for his overdraft when he was in financial difficulty.

What happened

Mr C complained to Lloyds after it changed its overdraft pricing structure. He said the extra costs were making his overdraft more difficult to repay, Mr C says this meant he was struggling with money and ended up in financial difficulties. Lloyds didn't uphold the complaint. And as Mr C was dissatisfied he referred the complaint to our service.

Mr C's complaint was considered by one of our adjudicators. She thought that Lloyds ought to have realised that Mr C was experiencing financial difficulty when it made changes to the overdraft pricing structure in November 2017 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'm intending to find that Lloyds acted unfairly when it continued charging overdraft interest and associated fees after it made changes to Mr C's overdraft facility in November 2017. At this stage it ought to have been clear that Mr C was in no position to sustainably repay what he owed within a reasonable period of time.

By this point, Mr C was hardcore borrowing. In other words he hadn't seen or maintained a credit balance for an extended period of time. And Lloyds's own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure, so Mr C was clearly not using his overdraft in the way it was intended to be used. Lloyds also ought to have realised that Mr C's use of his overdraft was unsustainable. Mr C's statements show significant gambling. In these circumstances, Lloyds ought to have realised that Mr C was at a significant risk of being unable to repay what he already owed. So Lloyds should have stopped providing the overdraft on the same terms and treated Mr C with forbearance rather than charge even more interest, fees and charges on the overdraft.

Mr C 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 C fairly and that he lost out because of what Lloyds did wrong. And this means that it should put things right.

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

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

- Reworking Mr C's current overdraft balance so that all interest, fees and charges applied to it after the changes to the overdraft facility in November 2017 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr C to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr C's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in November 2017.

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 C 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 C's credit file.

I understand the debt has since been sold on, so Lloyds should liaise with the debt purchaser to ensure the above is carried out.

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

My final decision

For the reasons I've explained, I'm upholding Mr C'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 C to accept or reject my decision before 11 October 2021.

Sophie Mitchell
Ombudsman