

The complaint

Mr C complains that (Lloyds) defaulted his overdraft and sold the debt to a debt collection agency.

What happened

Mr C transferred his account from Lloyds to another bank in February 2020. The balance was then £2,002.80 debit. He repaid £1,000 on 27 February 2020, another £400 on 16 March 2020 and a further £400 on 15 April 2020. The balance of £202.80 was sold to a debt collection agency (DCA) in September 2020. A default was registered.

Mr C complained. He said he tried to pay off the overdraft by payment from his new bank account. But each time, Lloyds rejected his payments. He's tried to speak to them but hadn't got anywhere.

Lloyds said the debt of £202.80 hadn't been repaid and so they made demand and transferred the debt to the DCA. They couldn't see why any payments to his account had been returned. They said they'd been clear in their letters that the debt had to be repaid, and they'd given him guidance as to how this could be paid off. They said that because the account had been switched to another bank, credits to pay off the debt had to be made to a holding account, using the sort code and account number as reference. This was advised to Mr C in letters. Because no payments had been received, Mr C's account has been transferred to their collections team – and their letter dated 17 April 2020 advised that. And it said to contact their collections team to make payment. They made formal demand for repayment on 29 May 2020. Mr C then had until 12 June 2020 to pay off the debt before it was referred to a DCA – and this would then mean a default could be registered in his name.

Mr C brought his complaint to us. Our investigator said she considered that Lloyds had acted reasonably. They hadn't received enough money from Mr C to pay off the overdraft balance of £202.80. Lloyds had given him instructions about how to make payments in their letters. Mr C had then paid in amounts of £1,000, £400 and another £400, leaving £202.80 outstanding. She could see (from Mr C's new bank statements) that Mr C had attempted to make three payments between 30 April 2020 and 5 July 2020, but all were returned. Lloyds' letter dated 17 April 2020 gave instructions as to how to make payments – he needed to call the collections team at Lloyds. Lloyds' letter dated 7 May 2020 reminded Mr C that the debt was due – but didn't give instructions as to how to pay it off. Lloyds had told Mr C many times how to make the payments to pay off the overdraft. In two phone calls, Lloyds had offered to provide Mr C with details of how to make payment – but he said he knew what to do. Lloyds had also given him enough warning that a default might be registered against his name if he didn't pay off the debt.

Mr C asked that his complaint be looked at by an ombudsman.

I reached a provisional decision where I said:

I take a different view to our investigator. The crux of Mr C's complaint is that he tried to pay off the Lloyds debt several times – using his account details - but each time the payment was rejected by Lloyds. And so – this was unfair. Lloyds have said to us that they believe he was using the wrong details – as they'd advised him to use a holding account, or to contact their collections team.

Mr C had shown us his bank statements for his new bank. These show he paid £202.80 to his Lloyds account – on 30 April 2020, 16 June 2020, 5 July 2020 and 15 July 2020. All had the reference of his Lloyds bank account number and sort code. And all the credits were returned the same day. Lloyds say they have no record of these rejected credits. But it appears that Mr C did make efforts to pay into his account – using his Lloyds account number and sort code. But – I can also see that it looks like they were faster payments. So – I looked at this.

Lloyds say they wrote to Mr C on 27 February 2020 – to pay into a holding account, using his old account details as a reference. They can't show us this letter – but they've shown us a template of what it would've said. It says to pay into his bank account by various means:

- *“Branch - Pay directly into your old account by cash or cheque*
- *Internal Transfer to your old account*
- *CHAPS Payment to your old account”*

It then goes on to say for *“Faster Payments, use the following account details.... Account Number: 00000000*

Sort Code: 30-48-52

Reference: <Sort Code...Account number”

I think this letter says – that Mr C should pay into his old bank account. But – if he used Faster Payments, the way to do it was different. And after the letter – he paid in £1,000 on 27 February 2020, another £400 on 16 March 2020 and a further £400 on 15 April 2020. And – these credits were accepted by Lloyds. But – it looks to me that those payments weren't by the faster payments method.

Lloyds also say that Mr C was advised to contact 'collections' to make payment in the letter of 27 February 2020. But the letter says – *“(this) does not apply to any account that is currently within our collections department. If your account is being managed by our collections department, immediate payment is required...”* But – Mr C's account wasn't being managed by collect advised him of this. So – that wasn't relevant.

Lloyds have said that their letter dated 17 April 2020 asked Mr C to contact 'collections' to make payment. I've looked at this letter and it doesn't. It quotes Mr C's sort code and account number and says *“...if you pay in the amount of £202.80 your account will be up to date...”* and *“...to return your account to order please pay the funds required into your account immediately.”* There's no mention of paying to a collections department – but it says to pay into Mr C's Lloyds account. There's no mention of how to pay into his account.

Lloyds have also said that their other letters advised Mr C to pay into a different, holding account. I've looked at the letters dated 7 May 2020, 29 May 2020 and 23 July 2020 – and all of them refer to paying into “your account”. There's no mention of any other means of payment.

And so – I must consider whether Lloyds communications were clear in advising Mr C what to do. There was one reference to how to use faster payments in their letter dated 27 February 2020 – as against three other methods in the same letter. And there were four other letters – which don't describe how to make payment – or that a different way was needed if using faster payments.

I can see why Mr C tried to pay into his old Lloyds bank account using his bank account details and using the faster payments method – which is what he did. He really wasn't told to do anything else. Lloyds say they wouldn't have seen these credits – if they were rejected by them.

And so, on balance and in the circumstances of this complaint, I think that Lloyds didn't act reasonably. I think Mr C tried to pay off his overdraft debt, using his Lloyds account details. And – I can't see that he was told to do anything other than that – other than one reference in the letter of 27 February 2020. So – I think that Lloyds should write off this small overdraft and remove the default from Mr C's credit file. And – because of the distress and inconvenience caused, they should also pay him compensation of £100.

Responses to the provisional decision:

Mr C accepted my findings. Lloyds said they agreed to remove the default and pay compensation of £100 to Mr C. But they made the point that the debt of £202.80 has still to be paid off. And as long as Mr C does that, they will remove the default marker from his credit file. They will explain the steps that Mr C needs to take when they write to him about the compensation payment.

So – I need to make a final decision.

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.

I've considered what Lloyds have said – and I think they make a good point. Because the payments to Mr C's account failed, the debt of £202.80 is still outstanding. And – it's only fair that Mr C repays this. So, I am changing my final decision to say this – otherwise it remains as set out in the provisional decision. Lloyds will advise Mr C how to pay off the debt when they write to him.

(continued)

My final decision

I uphold this complaint. And Lloyds Bank PLC must:

- Once Mr C has repaid the debt of £202.80, remove the default from Mr C's credit file.
- Write to Mr C to advise how to repay the debt.
- Pay compensation of £100 to Mr C.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 26 October 2021.

Martin Lord
Ombudsman