DRN-3116362

The complaint

Mr G complains about a credit card account he has with Lloyds Bank PLC (Lloyds).

What happened

In 2001, Mr G took out a credit card account with Lloyds. Mr G says that in recent years, the credit card has always been within the agreed credit limit and he has been making at least the minimum repayment amount each month. Mr G also added that he has sometimes made more than the minimum repayment and in November 2020 he made a lump sum payment to the account of £2,000 to reduce the outstanding balance.

Despite this, In February 2021, Lloyds made Mr G's credit card account repayment only – which means it stopped the card from being used for any spending. Mr G says that Lloyds insisted on him making repayments to the account that were more than the monthly minimum due. Mr G is unhappy with this as he feels as though Lloyds' request to ask him to pay more each month breaches the terms and conditions of his account.

Lloyds say that Mr G had been paying more in interest, fees and charges than he had repaid off his balance in the last 18 months. Because of this, Mr G's account met the criteria for being in persistent debt. Lloyds also explained that it needed to intervene to provide additional support because Mr G was still in persistent debt after a further 18 months – so 36 months in total.

Lloyds say it contacted Mr G in March 2020 to let him know that in order to keep his account open, he would need to make monthly repayments of the 'recommended payment amount'. It said that it contacted him again because in August 2020, October 2020, January 2021 and February 2021, Mr G didn't meet the recommended payment amounts, so his account was blocked on 26 February 2021 and the spending facility on the account was withdrawn.

Lloyds say it blocked the account because allowing Mr G to continue to spend on the account would have made it more difficult for him to repay the balance.

Our investigator looked into things for Mr G, but they didn't think that Lloyds had acted unfairly. They explained that Lloyds had a duty to identify where consumers may be in persistent debt, and that businesses, like Lloyds, are required to take steps to help customers break the cycle of persistent debt and ensure those who can't afford to repay more quickly are given help. The investigator found that Lloyds had sent Mr G letters explaining what he needed to do to ensure that his account remained open. But because Mr G didn't make the 'recommended repayment amount' each month, it was fair of Lloyds to put a stop on any further spending on the account.

Mr G responded to our investigators view to say he didn't agree. Mr G explained that he felt as though Lloyds had gone against the original terms and conditions of the account by not allowing him to continue to make the monthly minimum repayment and allow him the use of his card.

Because Mr G didn't agree, the complaint has been passed to me to make a decision on the matter.

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.

Having considered everything available to me, it is my decision not to uphold Mr G's complaint. I appreciate this will come as a disappointment to him, but I will explain my reasoning for this below.

The Financial Conduct Authority (FCA), who are the regulator, considers that an account is in a state of persistent debt if the level of interest which accrues on that account is such that the monthly payments made by the customer towards that account result in the customer paying more in interest and charges than they do towards paying off the capital balance on the account, over a prolonged period.

This can often be the case where a customer is paying close to the minimum payment required on the account, which can result in the customer repaying the monthly interest that accrues but making little progress towards reducing the capital balance outstanding on the account - meaning that monthly interest payments at a similar level keep becoming due.

Because of concerns about the long-term viability of such a situation for credit account holders, the FCA issued new rules surrounding how a credit provider must manage accounts that are considered as being in a state of persistent debt.

These rules came into force in March 2018 and placed requirements on credit providers such as Lloyds. The rules said they had to send letters to customers in persistent debt, explaining what this meant, and the monthly payment that now needed to be made to remove the account from being in persistent debt.

This was important, because there are potential consequences to being in persistent debt for an extended period of time. So, the letters also needed to explain if the account stayed in persistent debt, the credit provider could stop their customer from spending on the account. They could also initiate a repayment plan designed to clear the outstanding balance over a period of no more than four years. But these actions would only apply in certain circumstances.

The rules and guidance about persistent debt are not set by Lloyds but by the regulator- the FCA. So, I'm satisfied that Lloyds doesn't have a choice in the matter and must follow those rules and guidance.

Mr G's account fell into the remit of being in persistent debt. And so Lloyds was required to contact Mr G, which I can see it did do.

Lloyds hasn't been able to give us an actual copy of the letters it sent to Mr G, but it has sent me a sample of what it would have sent to him. I'm satisfied that this is likely to be similar to, if not the same, as the letters Mr G received.

All of the letters explained that Mr G should start to make the 'recommended payment amount' in order to reduce the balance of his account in a more sustainable way. The letters also explained that Lloyds may stop the use of the card if the recommended payment amount isn't met.

I can see that Mr G didn't make the recommended payment amount on a number of occasions in 2020 and in January 2021. And so Lloyds wrote to Mr G to say that it would suspend his account – and essentially stop any additional spending on the card.

Based on what I've seen, I think Lloyds fairly communicated with Mr G about what he was required to do to keep the spending facility on the account. I can see that Mr G didn't always make the recommended repayment amount and so Lloyds followed the actions it outlined in its letters and suspended the account from further spending activity. I don't find this to be unfair, and I think the actions it took are in line with the rules set out by the FCA.

I have seen that Mr G had made a lump sum payment to the account. But Lloyds still required him to make the recommended repayment each month, so it didn't get into a position of persistent debt. I can see that the recommended amount was on Mr G's monthly statement, so I think it likely he would have been aware that he'd still need to make increased monthly payments, even after he'd paid a lump sum off the balance. But Mr G didn't do this. So again, I don't feel Lloyds acted unreasonably by suspending the card.

Mr G says that Lloyds has gone against the original terms and conditions he agreed to when asking him to pay more than the minimum amount due. But looking at the terms and conditions that applied to his account, they say:

"We may have to make changes to your agreement if a regulator requires us to treat certain customers such as those with longstanding debt, including customers in or at risk of falling into persistent debt, in a particular way."

And it states:

"We may increase your minimum payment by changing the calculation in Section A7 if we consider that you are in persistent debt, or at risk of falling into persistent debt, where we consider it to be fair and reasonable to do so. This will enable you to reduce the amount of interest you will pay on your account and the time it takes you to clear your balance. 'Persistent debt' means that over an 18-month period you have paid more in interest and charges than you have paid off of your main credit card balance."

I'm satisfied the terms and conditions did state what would happen if his account fell into a persistent debt cycle. These might not have been the original terms and conditions Mr G agreed to when he first took out the account, however Lloyds can change terms and conditions from time to time. Lloyds had to take into account the rules set by the FCA -it can't disregard these or choose not to follow them.

So based on everything I've said, I don't uphold Mr G's complaint. And I don't think that Lloyds has acted unfairly or unreasonably when suspending the spending facility on his account.

My final decision

For the reasons set out above, I don't uphold Mr G's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 16 March 2022.

Sophie Wilkinson
Ombudsman