

Complaint

Miss A says that Lloyds Bank PLC (“Lloyds”) unfairly reduced her overdraft limit and then removed her facility after incorrectly recording the year she was due to complete her studies.

Background

One of our adjudicators looked into Miss A’s concerns. She didn’t think that Lloyds had done anything wrong or treated Miss A unfairly and so didn’t recommend the complaint be upheld. Miss A disagreed and so the complaint was passed to an ombudsman.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having carefully considered everything provided, I’m not upholding Miss A’s complaint. I’ll explain why in a little more detail.

It isn’t in dispute that Miss A received a letter from Lloyds, in May 2019, telling her, that under the terms of her graduate account, the interest and fee free portion of her overdraft was going to be reduced by £500 to £1,500.00. It looks like Lloyds started adding charging interest on the £500 portion which was no longer interest and fee free in August 2019. And the interest added to Miss A’s overdraft took her above her agreed limit of £2,000.

Lloyds wrote to Miss A on two occasions in September 2019 to explain that she was over her agreed limit and that she needed to bring the overdraft balance back within its limit, otherwise it would begin the process of imposing a corrective solution. When Miss A remained over her agreed limit in October 2019, Lloyds began the process of taking corrective action in relation to Miss A’s overdraft facility.

The information I’ve been provided with suggests Miss A got in contact with Lloyds in October 2019 and explained that her graduation date must have been incorrectly recorded in her initial application as she hadn’t graduated until the summer of 2019. Lloyds’ gave Miss A a 30 day breathing space in order to allow her to visit a branch to be able to provide documentary evidence for this to be corrected.

I know that Miss A went abroad and wasn’t able to produce the required documents during this period. But Miss A knew she had a set period of time to correct matters and when this didn’t happen she was sent a further communication providing her with 30 days to bring her overdraft back under its limit on 9 November 2019. And this letter said that if the amount due wasn’t paid by 23 November 2019 Lloyds would take steps to close Miss A’s account.

It looks like Miss A got in contact with Lloyds after this 23 November 2019 and an appointment was made for her to visit a branch with the required documentation. However, given the account closure process had already been set in motion by this stage, this appointment was arranged too late to prevent Miss A’s account being passed to collections.

I can understand why it must have been frustrating for Miss A to have received incorrect advice from Lloyds in relation to an appointment being made for her to provide the information she needed to after the account was due to be closed. But the fact remains that Miss A was told she was being moved onto a graduate account from as early as the autumn of 2018. And she was also told as early as May 2019 that her interest free overdraft portion would be reducing in August 2019.

So it's unclear to me why she didn't take steps to address any issues with her date of graduation much sooner than she did. Furthermore, Lloyds has already paid Miss A £250 in compensation for this. And given it was already too late to rectify matters in relation to the overdraft at this stage, I think that this is fair and reasonable here.

I have also given thought to the fact that it was the overdraft charges which took Miss A over her limit and but for these charges, which were refunded, it's possible Miss A wouldn't have been in breach of the terms and conditions of her account. But it was part of the terms and conditions of Miss A's account that she made regular credits to it. And by the time a corrective solution was imposed on Miss A's account in December 2019, the account hadn't seen any meaningful credits for a significant period of time.

It's also worth pointing out that as Miss A was unable to pay the £25 or so to bring her back within her credit limit, it's difficult to see how she was in a position to repay the facility within a reasonable period of time. And, in these circumstances, it seems to me that Miss A's overdraft had become demonstrably unsustainable for her. Indeed, this is supported by the fact that Miss A still hasn't been able to make any inroads into the amount owed despite the time that has passed. I don't think it would have been fair, reasonable or proportionate for Lloyds to continue ignoring this indefinitely.

After all while withdrawing a facility and recording a default or other adverse information, might be viewed negatively by other lenders, it does offer the borrower certain protections in relation to the overdraft debt. Lloyds acknowledges it may have added interest incorrectly and has now adjusted the outstanding balance to reflect this. But even if this is the case and Lloyds might have defaulted the account a little prematurely, Miss A's actions at the time and since the account closure persuade me that this was something that was always likely to happen.

I fully appreciate Miss S has gone through a difficult time and understand why she's unhappy with a default being recorded on her credit file and worried about the impact this will have on her. But asking Lloyds to reinstate the overdraft here, or remove the default, when it seems more likely than not Miss A can repay this debt in line with the initial arrangements, despite the time that has passed, would arguably be counterproductive and not in Miss A's interests or that of any future lender.

Indeed, removing the default in circumstances where Miss A appears unable to repay this debt within a reasonable period of time, is simply likely to result in a default being once again recorded again further down the line. This would restart the six-year recording period and Miss A will end up having had a default on her credit file for far longer than she should have done.

Bearing in mind all of the above, I'm satisfied that while it's possible Lloyds might have started the process of taking corrective action in relation to Miss A's overdraft a little prematurely, Miss A was always likely to default on her overdraft as the facility had become demonstrably unsustainable for her. As this is the case, I'm satisfied that Miss A hasn't lost out as a result of anything might have gone wrong here and the compensation Lloyds has already paid as well as the interest it has already refunded represents a fair and reasonable resolution to her complaint.

So overall and having considered everything, I have not been persuaded to uphold Miss A's complaint. I appreciate that this will be very disappointing for Miss A. But I hope that she'll understand the reasons for my decision and at least feel that her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 28 February 2022.

Jeshen Narayanan
Ombudsman