

The complaint

Mr R complains that he reached an agreement with Lloyds Bank PLC to clear a debt, but it didn't honour that agreement, and instead it defaulted his account. Mr R says he's been complaining about this for some years, and Lloyds only just accepted it made a mistake.

What happened

In 2017, Mr R decided to switch banks, away from Lloyds. He had an existing overdraft with Lloyds, of around £4,000 which he was using. He thought that he would be offered the same lending by his new bank. But he wasn't. Mr R said he tried to cancel the switch, but Lloyds told him he was too late to do so.

Mr R said he spoke to Lloyds, and agreed a payment plan with it. He said he was going to pay £1,000 upfront, then £250 per month until the debt was cleared.

Mr R said he made payments to his old account, but the money just bounced back into his new account. He tried several times to do this, but always with the same result. Mr R was then told that no payment plan should have been agreed, and he had to pay the full amount.

Mr R said that Lloyds put a default on his credit file, and passed the debt to a collection agency. Mr R hasn't paid this debt. He said he's been challenging this ever since.

Mr R wanted the default removed, and £200 per month in compensation for every month since this problem happened, back in 2018.

Lloyds showed us that Mr R made an account switching request in September 2017. It sent him a final demand for the outstanding balance that he owed for his overdraft, on 13 February 2018, and a pre-closure letter on 22 March 2018.

Lloyds' debt collection notes then mention a payment arrangement to clear an outstanding debt, with payment expected in April 2018. They also mention Mr R having attempted to make a payment of £1,200 but the payment bounced back to his new account.

Mr R appears to have complained about this towards the end of 2018, because Lloyds wrote to Mr R on 12 December 2018, responding to a complaint. Lloyds said then that it had no record of entering into any payment agreement with him, or offering him any such agreement. It wanted him to pay the £3,693.18 he owed, and confirmed its recoveries team had closed his account on 7 June 2018. It had defaulted this debt at that time.

But more recently, Lloyds has changed its mind. It wrote to Mr R again on 11 November 2020, and Lloyds said that it could now see that Mr R had agreed a payment plan of £250 with it, for 10 months. But it said that it couldn't agree a payment plan with him at that time, because his account was being switched out. So it said it had given him wrong information. Lloyds said it was sorry it had done so, and it paid him £100 for this.

Our investigator thought this complaint should be upheld. He said Lloyds had given Mr R poor advice. But he said that by the time Mr R asked to cancel the switch, it was too late to

do so, and Lloyds was within its rights to demand full payment of the overdraft. So he didn't think Lloyds had to remove the default from Mr R's credit file. But he did think Lloyds should pay £100 more, in addition to the £100 it had already paid, to make up for the impact this had on Mr R.

Mr R didn't want to accept that. He said that because of the time he'd spent on this, the fact that the bank called him a liar, and with everything that had happened, £200 wasn't fair compensation. And he said he'd not cashed the cheque for £100. But our investigator didn't change his mind.

Because no agreement was reached, this case was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

Mr R has told us he was left unexpectedly needing to repay an overdraft to Lloyds. I can see that Lloyds wrote to Mr R in February 2018 asking him to pay the outstanding balance on 13 February 2018. Lloyds has said it considers that this letter warns Mr R that his debt will be defaulted.

Lloyds then sent a pre-closure letter on 22 March 2018. It appears that it is this letter which actually warns Mr R of the possible impact on his credit file if he doesn't pay in full.

Mr R does appear to have responded to this letter, because Lloyds' debt collection notes show it reached an arrangement with him to clear the debt, with payment expected in April 2018.

Those notes also mention Mr R having attempted to make a payment of £1,200 but the payment bounced back to his new account. As Mr R's account had switched out, he wouldn't simply be able to use the old account details to clear his debt. Any payment made to that old account number at Lloyds would automatically be routed to his new account elsewhere. This is to make sure that things like Mr R's salary reach his new account. But it can also make paying off a debt like this more difficult.

So it appears that Lloyds did tell Mr R he could have a payment plan. But it didn't tell him how to make sure that the payments he was making would reach it.

Lloyds then appears to have defaulted this debt and passed it to debt collectors. Without further reference to Mr R.

Mr R has been challenging this debt ever since, and Lloyds has shown us a letter it wrote to him saying that it had no record of any plan being set up on the account. Lloyds says this happened because of an IT problem which meant it couldn't see the previous notes.

I can understand that Mr R must have been intensely frustrated at this point, and I do think that Lloyds has provided him with poor service.

Lloyds has told us that it doesn't think it should have to remove the default now, because it thinks that a default is what should always have happened. It says that the mistake it made was in telling Mr R that he could ever have a plan, when it shouldn't

have said that. And it also notes that Mr R didn't pay at the time, and he hasn't paid since.

I don't think that's right. I do understand that an overdraft is repayable on demand, under the terms of Mr R's account with Lloyds. But I think that having made an arrangement to clear this debt, Lloyds ought to have honoured it at the time. I don't think it's reasonable for Lloyds to have made such an arrangement and then simply defaulted the debt, without giving Mr R any further warning of this. And that is what appears to have happened.

So I think that Lloyds did the right thing when it agreed a payment arrangement with Mr R in April 2018. And I think it made a mistake when it didn't tell Mr R how to make sure his payments reached it. I think it made another mistake when it then defaulted his account, apparently without warning Mr R that it wasn't going to honour its agreement to accept instalments for his debt.

But I don't think that this mistake would mean that Lloyds has to pay £200 in compensation for every month which has passed since the mistake was made. Mr R said he expected a sizeable award, and he thought I should make a large award because he said that small compensation awards are not teaching the banks a lesson nor protecting other customers from the same treatment in the future.

I've explained to Mr R that I'm only looking at his case. Our service isn't a regulator, and we don't make awards to punish banks or to discourage future wrongdoing.

I can only look at the effect of this complaint on Mr R. And although I appreciate how frustrating he has found this, I don't think it would be consistent with other awards I've made, if I were to make an award of that scale.

I have explained this to Mr R, in correspondence since our investigator reached his view. And I've also explained that I'd like to try to put Mr R back in the position he would have been in, if Lloyds didn't make these mistakes.

If Lloyds hadn't made these mistakes, Mr R wouldn't have a default on his credit file. But he would also have had to pay back the money he owed.

It wouldn't be fair and reasonable for me to ask Lloyds to simply erase this debt. I could ask it to remove the default now, but that would mean that Mr R would have to clear this debt.

I have also set this out for Mr R. I've explained that I would not wish to remove an old default from his credit file, and instruct Lloyds to set up an arrangement to pay back the debt, if he isn't in a position to keep to that payment plan. That's because the debt would then be likely to default again. And a more recent default has a much more severe impact on someone's credit file than an older one.

I've also explained to Mr R that I can't just assume that either he would like to clear this debt, or that he would be able to. So without a response from Mr R on this, I can't include any provision requiring Lloyds to remove this default from Mr R's credit file in this decision. (And I should also note that, as this decision will provide a final resolution for this complaint, Mr R wouldn't be able to return to our service in future, to ask for this to be done.)

Mr R hasn't responded to my requests for information on whether he would like to, or indeed would be able to, reach an agreement now with Lloyds to repay this debt.

So, because any resolution which removes the old default risks putting Mr R in a worse position than he is now, my provisional view is that I won't ask Lloyds to do that. Lloyds doesn't have to amend Mr R's credit file now.

Although I'm conscious that Mr R doesn't appear to wish to clear this debt now, I still think that Lloyds should pay Mr R more compensation than it has previously offered. This is a long-running problem, which Mr R has been trying to resolve for some time. And Mr R clearly feels greatly aggrieved that Lloyds hasn't believed that it did set up a payment arrangement with him, although it has now realised that he was right about that. So I think Lloyds must pay Mr R a total of £500 in compensation. If Lloyds can show Mr R has cashed its cheque for £100, then it can count that amount towards this total.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Lloyds replied, but Mr R didn't.

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 said that it had already agreed that this complaint should be upheld. And it felt that my proposed compensation wasn't unreasonable, so it would accept my provisional decision. Lloyds said it had already sent Mr R a £100 cheque. If Mr R accepts my final decision, then Lloyds said it would send a further £400 if this first cheque has been cashed. If not, it would stop that cheque and send £500.

I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that Lloyds Bank PLC must pay Mr R a total of £500 in compensation. Lloyds can count towards that amount any payment it has already made for this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 20 December 2021.

Esther Absalom-Gough
Ombudsman