

The complaint

Ms L has complained that Lloyds Bank PLC (“Lloyds”) continued charging her excessive amounts for her overdraft when she was in financial difficulty.

What happened

Ms L complained to Lloyds that she was suffering from financial hardship due to charges applied to her account. Lloyds says Ms L’s financial difficulties were short term and it assisted Ms L by refunding a large proportion of charges to her account and that all charges were applied in line with the terms and conditions of the account. And as Ms L was dissatisfied she referred the complaint to our service.

Ms L’s complaint was considered by one of our adjudicators. They thought that Lloyds ought to have realised that Ms L was experiencing financial difficulty from 4 March 2020 and so shouldn’t have added any more interest, fees and charges from this point onwards. Lloyds disagreed, 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 on Ms L’s overdraft from 4 March 2020. By this point, it ought to have been clear that Ms L was in no position to sustainably repay what she owed within a reasonable period of time.

By this point, Ms L had already notified Lloyds of a change in circumstances and drop in income and her financial difficulties. And on review of her account activity it can be seen Ms L wasn’t receiving funds into her account regularly and wasn’t able to pay back her overdraft within a reasonable period of time. Lloyds’s own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure.

So I think that Ms L’s overdraft usage should have prompted Lloyds to have realised that Ms L wasn’t using her overdraft as intended and shouldn’t have continued offering it on the same terms. I accept that Lloyds did offer some assistance in the short term by refunding a proportion of charges and putting her in touch with the financial assistance team. But I don’t think this went far enough as Lloyds continued charging Ms L without establishing that her position had improved and that she was able to once again pay back her overdraft within a reasonable period of time.

Lloyds says Ms L's financial difficulties were short term as she had recently been able to bring her overdraft right down. But this is over a year since she contacted it for help and during that time Ms L continued to live month after month heavily into her overdraft.

Ms L ended up paying additional interest, fees and charges on her overdraft and this ended up exacerbating difficulties she already had in trying to clear it. So I think that Lloyds didn't treat Ms L fairly and she lost out because of what Lloyds did wrong. And this means that it should put things right.

Putting things right

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

- Reworking Ms L's current overdraft balance so that all interest, fees and charges applied to it from 4 March 2020 are removed - any refunds already provided by Lloyds can be used to reduce this amount.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Ms L to arrange a suitable repayment plan, Ms L is encouraged to get in contact with and cooperate with Lloyds to reach a suitable agreement. If it considers it appropriate to record negative information on Ms L's credit file, Lloyds should reflect what would have been recorded had it started the process of taking corrective action on the overdraft from 4 March 2020. Lloyds can also reduce overdraft limit by the amount of refund if it considers it appropriate to do so, as long as doing so wouldn't leave Ms L over her limit.

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 Ms L 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 Ms L's credit file. Lloyds can also reduce Ms L's overdraft limit by the amount of refund if it considers it appropriate to do so.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Ms L 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 Ms L'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 Ms L to accept or reject my decision before 17 March 2022.

Caroline Davies
Ombudsman