

The complaint

Ms D has complained that Lloyds Bank Plc acted unfairly when it applied overdraft charges and interest to her current account. She says the charges and interest were too high and that Lloyds did not help her when she asked for assistance with her financial difficulties.

What happened

Ms D contacted Lloyds in October 2019, she said she was struggling financially and needed help with the charges on her account. Lloyds took details of her income and expenditure and suggested that as she had no spare funds after her essential expenditure, that it would be best for the account to be passed to the bank's recoveries department where charges and interest could be stopped and an affordable repayment plan agreed. Ms D asked instead for some breathing space, and Lloyds ultimately suspended fees on her account for two months. But when the charges started to once again be applied Ms D complained to Lloyds that it wasn't helping her enough.

Lloyds responded to say that it felt it had acted fairly. Ms D remained unhappy and so referred her complaint to us.

One of our adjudicators looked at this complaint and thought that Lloyds hadn't done anything wrong. Ms D disagreed and so the complaint was passed to an ombudsman for review.

I issued my provisional decision on this case on 16 December 2021. In that provisional decision I set out why I felt Lloyds should refund to Ms D the charges and interest applied to her account from January 2020 onwards. Lloyds agreed to make an offer to Ms D in line with my provisional decision, but Ms D remains unhappy about the debt continuing to be recorded on her credit file so the case has come back to me for 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.

In my provisional decision I said the following:

"Having carefully considered everything provided, I think Lloyds acted unfairly when it continued adding interest and associated fees and charges to Ms D's overdraft from January 2020.

This is when Ms D contacted Lloyds to explain her financial difficulties and to ask for help. And once a lender is told a borrower is experiencing financial difficulty, we'd expect it to exercise forbearance and due consideration, in line with its regulatory obligations. Ultimately, we'd expect a lender to listen to a borrower, get an understanding of their circumstances and assess the most appropriate way to move forward.

Lloyds did take steps to properly understand Ms D's situation, by asking for details of her income and expenditure. And it identified at that time that she had no available income after her regular payments had been met. Ms D was also given the option of her account being referred to Lloyds' recoveries team but declined this as she was concerned about the impact on her credit file. I think that what Lloyds did at this stage was an appropriate temporary measure and so I'm satisfied that Lloyds did act fairly and reasonably when Ms D initially got in contact to say she was struggling.

But even though Ms D might have refused longer-term assistance, I don't think it would have been fair and reasonable for Lloyds not to have imposed a longer-term solution on Ms D's overdraft had her account conduct indicated continued financial difficulty. And Ms D's statements from when the fee free period expired don't suggest that anything had changed particularly – she continued to operate at the limit of her overdraft for most of the month and to regularly exceed the limit when charges were applied. And it was clear that any income going into the account was almost immediately used up by regular payment.

So, it's difficult to see how Lloyds could think she would be able to now repay this overdraft in a reasonable period of time when her situation appeared unchanged. And I think Lloyds should have taken proactive steps to ensure that Ms D's financial situation didn't deteriorate further.

As Lloyds didn't react to Ms D's overdraft usage or act decisively enough in January 2020 and instead continued applying fees to her overdraft, I think it failed to act fairly and reasonably towards them.

Ms D ended up paying additional interest, fees and charges on their overdraft at a time when they were already experiencing difficulty. So, I'm intending to say that Ms D lost out because of what Lloyds did wrong and that it should put things right.

I appreciate that Ms D feels that all the charges applied to her account over the years are unfair. But the amounts that Lloyds charges are a commercial decision, and so not something that I can look at here. And prior to October 2019 I agree with our adjudicator that there were not clear enough signs of difficulty on Ms D's account to prompt Lloyds to take action. I'm not doubting that Ms D was in difficulty during those earlier years, but her account statements show regular credit balances – even if only for a few days at a time – as well as some large credits. And it's clear from those statements that this wasn't her main account, so Lloyds wouldn't have a full picture of her circumstances. All this means that I think the transactions alone wouldn't have given Lloyds particular cause for concern, so I think it's reasonable that it didn't identify Ms D was in difficulties until she told it about her circumstances in October 2019.”

Lloyds has made an offer in line with my findings above, and I am satisfied that for the reasons explained above that offer is fair in all the circumstances of this complaint.

Ms D has said she remains unhappy that her credit file will be affected by the outstanding balance of her overdraft. I know that Ms D would like the debt to be removed from her credit file but a credit file is intended to be an accurate reflection of a customer's financial position, so I'm satisfied that what Lloyds has offered to do – to backdate Ms D's credit file so it reflects what *should* have happened – is a fair way to resolve this complaint.

Putting things right

Lloyds has made the following offer to put things right for Ms D, and I consider this to be fair and reasonable in all the circumstances of this complaint. Lloyds will:

- Rework Ms D's current overdraft balance so that all interest, fees and charges applied to it from January 2020 are removed.

AND

- As an outstanding balance will remain on the overdraft once these adjustments have been made Lloyds will move the account to its recoveries department and contact Ms D to arrange a suitable repayment plan for this. If Lloyds considers it appropriate to record negative information on Ms D's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in January 2020.

My final decision

I am upholding Ms D's complaint, and Lloyds Bank Plc should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 16 February 2022.

Sophie Mitchell
Ombudsman