

The complaint

Mr D says that Lloyds Bank PLC ("Lloyds") closed his account without notice and that it acted unfairly by continuing to apply charges to his account when he was in financial difficulty.

What happened

Mr D held a bank account with Lloyds with an overdraft limit of £3,000. Mr D went over his overdraft limit and following letters asking him to get in touch about this in April and May 2020 Lloyds sent Mr D a final demand letter to his last known address on 21 July giving him 30 days' notice that it was going to close his account unless the outstanding balance was settled. Following no response Mr D's account was closed and a default was recorded on his credit file and the debt sold to a third party.

Mr D complained to Lloyds that he received no notification or letters regarding the default because he had moved address. He says he spoke to Lloyds in between June and July to let it know his situation and that he'd moved.

Lloyds says the first record it had of Mr D informing it he'd moved wasn't until August 2020 and that the correct procedures were followed and letters were sent to the last known address it had registered for him.

One of our adjudicators looked into Mr D's concerns and thought that it had followed the correct processes and hadn't done anything wrong in closing his account and recording a default with the credit reference agencies. But they did think that Lloyds should've stepped in earlier and had acted unfairly by continuing to charge overdraft fees when Mr D hadn't seen or maintained a credit balance for an extended period of time. They thought to put things right Lloyds should rework Mr D's account and remove all interest and charges added to the account from 20 July 2019.

Lloyds accepted it should've stepped in earlier and made an offer to settle the complaint by:

- Re-working Mr D's overdraft balance so that all interest, fees and charges applied to it from 20 July 2019 are removed. This would mean a refund of £983.06 of daily overdraft fees;
- The account in question closed with an outstanding balance of £3,037.86 so the stated refund will be used to reduce this debt. As the debt was sold by the bank to a third party the Bank will decide whether to repurchase this so a repayment plan can be arranged directly with Mr D. If the debt remains with the third party then Mr D will need to contact this firm directly to repay the outstanding balance; and
- Lloyds will arrange for the default to be backdated to reflect if the action to close the account commenced on 20 July 2019. As this process usually takes 3 to 6 months it would mean the default will be recorded as applied on 20 October 2019.

Mr D declined the offer, so the complaint was passed to an ombudsman 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.

My role is to look at the problems Mr D has experienced and see if Lloyds has done anything wrong. If it has, I would seek – if possible - to put Mr D back in the position he would've been in if the mistakes hadn't happened. And I may award modest compensation that I think is fair and reasonable.

Mr D's initial complaint point is that it was unfair Lloyds closed his account and registered a default on his credit file without giving any notice. So the question I have to ask is whether Lloyds did anything wrong in closing Mr D's account or in the processes it followed when doing this - in particular, closing his account and registering a default when he didn't pay back the outstanding balance of his overdraft in the required time.

I'm in agreement with our adjudicator here, in that I don't think that Lloyds acted unfairly when it closed Mr D's account and registered a default. As prior to this happening I can see that Lloyds sent a number of letters to the address it had registered for Mr D notifying him that his account was in arrears and what was to happen to his account if no action was taken.

I understand Mr D says he never received these letters because he had moved from the address Lloyds had registered for him. But Lloyds records show that he only notified it he'd moved in August 2020 following the closure of the account.

So I can't say Lloyds did anything wrong as it wrote to the address it had registered for him and as no payment was received and Mr D failed to get in touch his account was closed and a default registered for the outstanding balance.

And I don't think Lloyds did anything wrong in recording a default on Mr D's credit file – Lloyds has a duty to make sure the information it reports on its customers affairs to the credit reference agencies it subscribes to is factually accurate and this is an accurate reflection about what happened.

In regards to the second part of Mr D's complaint, I'm in agreement with our adjudicator here that Lloyds should've stepped in sooner than it did. Where a business continues to allow a consumer to use a credit facility which it should have realised was unsustainable, we'd typically expect it to put the consumer in the position they'd be in now if they hadn't paid any further interest and charges on that credit. This means we'd normally expect a lender to refund the interest and charges added to any credit from the point the lender ought to have realised it was unsustainable.

And in this case after a detailed review of Mr D's statements, our adjudicator thought that by 20 July 2019 it was clear Mr D's overdraft was unsustainable as his account hadn't seen or maintained a credit balance over a number of months and thought Lloyds should refund the interest and charges added to the overdraft from this point.

As Lloyds has offered to settle the complaint in-line with what I'd expect I'm satisfied that what Lloyds has already agreed to do to put things right for Mr D is fair and reasonable in all the circumstances of this case and I'm not requiring it to do anything more. As this is the case, it's up to Mr D to decide whether to accept Lloyds offer.

My final decision

For the reasons I've explained, satisfied that what Lloyds Bank PLC has already agreed to do to put things right for Mr D is fair and reasonable and I'm not requiring it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask X to accept or reject my decision before 22 June 2022.

Caroline Davies
Ombudsman