

The complaint

Miss P has complained that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by increasing her overdraft limit when she was in financial difficulty.

What happened

Miss P complained to Lloyds that it acted irresponsibly by allowing her to increase her overdraft limit on a number of occasions. She says the increase in limits was unaffordable for her and the charges caused her financial difficulty. Lloyds didn’t uphold the complaint. And as Miss P was dis-satisfied she referred the complaint to our service.

Miss P’s complaint was considered by one of our adjudicators. They thought that Lloyds ought to have realised that Miss P was experiencing financial difficulty by 3 June 2015 and so shouldn’t have added any more interest, fees and charges from this point onwards.

Lloyds didn’t respond so the case was passed to an ombudsman for a 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.

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 after it increased Miss P’s overdraft limit to £550 on 3 June 2015. By this point, it ought to have been clear that Miss P was in no position to sustainably repay what she owed within a reasonable period of time.

By this point, Miss P was hardcore borrowing. In other, words she hadn’t seen or maintained a credit balance for an extended period of time. Lloyds’ own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. Miss P was already clearly struggling to manage her existing overdraft limit with Lloyds when it once again agreed to increase her limit a further £150 to £550. A cursory look at her statements show she wasn’t able to bring down the overdraft from the limit she already had. The statements show that even after Miss P’s salary was paid that once she had paid her bills, she would fall back into overdraft within days.

So I think that Miss P’s overdraft usage should have prompted Lloyds to have realised that Miss P wasn’t using her overdraft as intended and shouldn’t have continued offering it on the same terms. As Lloyds didn’t react to Miss P’s overdraft usage and instead increased her limit and continued charging in the same way, I think it failed to act fairly and reasonably.

Miss P 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 Miss P 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 Miss P's complaint for Lloyds to put things right by:

- Buying back the debt which has been sold to a third party. Following this, Lloyds should re-work Miss P's current overdraft balance so that any additional interest, fees and charges applied as a result of the overdraft limit increases from 3 June 2015 onwards are removed. This means that from 3 June 2015 onwards interest can only be charged on first £400 of any overdrawn balance.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Miss P to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss P's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft on 3 June 2015.

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 Miss P 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 Miss P's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Miss P 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 Miss P'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 Miss P to accept or reject my decision before 10 August 2022.

Caroline Davies
Ombudsman