

The complaint

Miss R has complained that Lloyds Bank PLC (“Lloyds”) acted unfairly by approving an overdraft that was unaffordable and continuing to apply charges to her account when she was in financial difficulty

What happened

Miss R complained to Lloyds that the fees it applied to her account caused her financial difficulty. Lloyds says the charges were applied correctly in line with the terms and conditions of the account and didn’t uphold the complaint. And as Miss R was dis-satisfied she referred the complaint to our service.

Miss R’s complaint was considered by one of our adjudicators. They thought that Lloyds ought to have realised that Miss R was experiencing financial difficulty by March 2016 and so shouldn’t have added any more interest, fees and charges from this point onwards.

As Lloyds hasn’t responded Miss R’s complaint has been 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.

Having carefully considered everything provided, I’m intending to find that Lloyds acted unfairly when it continued charging overdraft interest and associated fees on Miss R’s overdraft from March 2016. By this point, it ought to have been clear that Miss R was in no position to sustainably repay what she owed within a reasonable period of time.

It was clear that Miss R was having difficulty managing her money. Miss R hadn’t seen or maintained a credit balance for an extended period of time. Lloyd’s own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure.

Miss R’s statements show that even after her salary was paid in if it was enough to bring her account into credit it was only for a very short period of time before she was back in overdraft. Sometimes she made internal transfers in and out of another account in order to manage this – but there weren’t enough funds in the other account to keep her out of her overdraft for long or to pay it off.

I accept there was the odd month when Miss R was able to maintain a credit balance but this was mainly due to the receipt of funds from loans and Miss R’s statements show that after paying off credit cards and making loan payments that she would again find herself overdrawn.

So I think that Miss R’s overdraft usage should have prompted Lloyds to have realised that Miss R wasn’t using her overdraft as intended and shouldn’t have continued offering it on the

same terms In these circumstances, it ought to have been apparent that Miss R was at a significant risk of experiencing financial difficulty and so should have been treated with forbearance rather than having had even more interest, fees and charges added to her overdraft. As Lloyds didn't react to Miss R's overdraft usage and instead continued charging in the same way, I think it failed to act fairly and reasonably.

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

- Reworking Miss R's current overdraft balance so that all interest, fees and charges applied to it from March 2016 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Miss R to arrange a suitable repayment plan, Miss R 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 Miss R's credit file, Lloyds should reflect what would have been recorded had it started the process of taking corrective action on the overdraft from March 2016. 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 Miss R over their 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 Miss R 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 R's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Miss R 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 R'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 R to accept or reject my decision before 2 August 2022.

Caroline Davies
Ombudsman