

The complaint

Mr M has complained that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by increasing his overdraft limit. He says Lloyds acted unfairly by continuing to apply charges to his account when he was in financial difficulty.

What happened

Mr M had an overdraft with Lloyds with a limit of £1,000. Mr M applied online and was approved for an increased limit of £2,000 in April 2018 and £3,500 December 2018.

Mr M contacted Lloyds in September 2020 to discuss his financial situation and applied for a consolidation loan. Mr M confirmed he was being assisted by his family and was up to date with his bills. Lloyds declined Mr M a loan but refunded £30 of daily overdraft fees and later £100 and suppressed the daily overdraft interest from 10 September 2020 to 17 June 2021. After which Mr M repaid the overdraft by taking out a personal loan with another lender.

Mr M complained to Lloyds that it acted irresponsibly by allowing him to increase his overdraft limit on a number of occasions. Lloyds didn’t uphold the complaint. And as Mr M was dis-satisfied he referred the complaint to our service.

One of our adjudicators looked into Mr M’s complaint and thought that although the increases in limit of Mr M’s overdraft limit were reasonable based on the information Lloyds had, they felt that Lloyds ought to have known Mr M was in financial difficulty by the overdraft renewal date on 24 April 2020.

Lloyds disagreed. It says that it sent many communications to Mr M inviting him to get in touch if he was in financial difficulty but didn’t do so until September 2020. Lloyds says Mr M chose to seek assistance from family and friends to reduce his overdraft instead of accepting the help and support it had offered and that was his decision to make. Lloyds has asked for an ombudsman’s 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 needed to make sure that it didn’t lend irresponsibly. In practice, what this means is it needed to carry out proportionate checks to be able to understand whether Mr M would be able to repay what he was being lent before providing any credit to him. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate.

Mr M’s overdraft is what we refer to as an open-ended credit facility. This means the checks Lloyds carried out had to provide enough for it to be able to understand whether Mr M would be able to repay his overdraft within a reasonable period of time.

During the period December 2017 to December 2018 Lloyds approved overdraft limit increase’s from £1,000 to £3,500. A further application for an increase in December 2019

was declined. The applications for the limit increases were made online. Lloyds says all applications were credit scored taking into account information Mr M provided about his income and how he had managed his account with it, as well as information held by other lenders provided through credit reference checks. And based on this information Lloyds was satisfied his score was high enough to provide him with the overdraft facility he requested.

I accept that Mr M's financial position may well have been worse than the credit checks carried out showed or in any information he disclosed to Lloyds at the time. And it is possible that further checks might have told Lloyds this. But Lloyds was reasonably entitled to rely on the credit check it carried out.

And having viewed Mr M's statements leading up to the increases I can see that although Mr M did use his overdraft he was regularly able to bring it right down with incoming credits and sometimes saw and was able at times to maintain a credit balance and never went over his limit. There were no arrears reported on Mr M's credit file and the monthly credits to his account - though not always the same amount – roughly matched what he'd declared. So I think Lloyds's checks went far enough and I don't think Lloyds acted unfairly in agreeing to increase his limit up until the last occasion it did in December 2018.

But by the middle of 2019 and certainly the renewal date of 24 April 2020 I think it was evident he was in financial difficulty. Mr M's statements showed that he hadn't seen or maintained a credit balance for an extended period of time and spent the majority of time at the top of his limit. Direct debits were frequently being returned and at times Mr M was exceeding his limit. Although there were still some credits coming into the account overall the overdraft wasn't reducing.

Lloyds's own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. Mr M's statements show he was clearly struggling to manage his overdraft limit with Lloyds, there was little money coming in and when it did come in it went straight out again to service other accounts or pay back loans and credit cards.

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.

And having carefully considered everything provided, think that Lloyds acted unfairly when it continued charging overdraft interest and associated fees from 24 April 2020. By this point, it ought to have been clear that Mr M was in no position to sustainably repay what he owed within a reasonable period of time. I accept that Lloyds did offer support and assisted Mr M when he got in contact with it in September 2020 but this is months after his account was showing signs of financial difficulty.

So I think that Mr M's overdraft usage should have prompted Lloyds to have realised that Mr M wasn't using his overdraft as intended and shouldn't have continued offering it on the same terms. As Lloyds didn't react to Mr M's overdraft usage early enough I think it failed to act fairly and reasonably.

Mr M ended up paying additional interest, fees and charges on his overdraft and this ended up exacerbating difficulties he already had in trying to clear it. So I think that Lloyds didn't treat Mr M fairly and he lost out because of what Lloyds did wrong.

Putting things right

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

- Reworking Mr M's overdraft balance so that all interest, fees and charges applied to it from 24 April 2020 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr M to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr M's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft on 24 April 2020.

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 Mr M 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 Mr M's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr M a certificate showing how much tax it has taken off if they ask for one.

My final decision

My final decision is I uphold Mr M's complaint against Lloyds Bank PLC and direct it pay the fair compensation outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 December 2022.

Caroline Davies
Ombudsman