

## **The complaint**

Mrs S has complained that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by providing her with an overdraft she couldn’t afford. She says Lloyds acted unfairly by continuing to apply charges to her account when she was in financial difficulty.

## **What happened**

Mrs S held an account with Lloyds and applied and was approved for an overdraft with a limit of £500 in January 2020.

Mrs S complained to Lloyds that it acted irresponsibly by approving an overdraft facility for her. Lloyds didn’t uphold the complaint. And as Mrs S was dis-satisfied she referred the complaint to our service.

One of our adjudicators looked into Mrs S’s complaint and thought that the initial overdraft lending was reasonable based on the information Lloyds had, but they felt that Lloyds ought to have known Mrs S was in financial difficulty following the overdraft renewal date in February 2021.

Lloyds didn’t respond to our adjudicators view so the complaint was progressed 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 Mrs S would be able to repay what she was being lent before providing any credit to her. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate.

Mrs S’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 Mrs S would be able to repay her overdraft within a reasonable period of time.

Mrs S applied and was approved for an overdraft with a limit of £500 in January 2020. Lloyds says her application was credit scored taking into account information Mrs S provided about her income and how she had managed her account with it, as well as information held by other lenders provided through credit reference checks. And based on this information Lloyds was satisfied her score was high enough to provide her with the overdraft facility she requested.

I accept that Mrs S’s financial position may well have been worse than the credit checks carried out showed or in any information she 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 Mrs S's statements leading up to the increases I can see that Mrs S was managing her account with Lloyds and that the monthly credits to her account matched what she declared on her overdraft application. And given the relatively modest overdraft limit requested I think Lloyds's checks went far enough and I don't think Lloyds acted unfairly in agreeing the overdraft facility for Mrs S.

But by the renewal date of 3 January 2021 I think it was evident she was in financial difficulty. Mrs S's statements showed that she hadn't seen or maintained a credit balance for an extended period of time and spent the majority of time at the top of her limit and at times direct debits were being returned. Although there were still some credits coming into the account they were less than when the overdraft was approved and overall the overdraft wasn't reducing.

Lloyds's own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. Mrs S's statements show she was clearly struggling to manage her 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 for bills and day to day living.

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, I think that Lloyds acted unfairly when it continued charging overdraft interest and associated fees from February 2021. By this point, it ought to have been clear that Mrs S was in no position to sustainably repay what she owed within a reasonable period of time. I accept that Lloyds did offer support and assisted Mrs S by refunding some overdraft fees when she got in contact with it but this is a year after her account was showing signs of financial difficulty.

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

Mrs S 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 Mrs S fairly and she 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 Mrs S's complaint for Lloyds to put things right by:

- Reworking Mrs S's overdraft balance so that all interest, fees and charges applied to it from February 2021 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mrs S to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mrs S's credit

file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in February 2021.

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 Mrs S 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 Mrs S's credit file.

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

### **My final decision**

My final decision is I uphold Mrs S'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 Mrs S to accept or reject my decision before 21 March 2023.

Caroline Davies  
**Ombudsman**