

## **The complaint**

Miss O has complained that Lloyds Bank PLC (“Lloyds”) acted irresponsibly by approving two accounts for an overdraft, increasing her overdraft limit’s and continued to apply charges to her account when she was in financial difficulty.

## **What happened**

In July 2016 Miss O held two accounts with Lloyds. Account ending 6960 had an overdraft with a limit of £450 which increased six times over a two year period to £1,350. Account ending 2368 was approved for an overdraft in January 2018 with a limit of £150 increasing to £450 by October 2018.

Miss O complained to Lloyds that it acted irresponsibly by allowing her an overdraft on her two current accounts. Miss O was dis-satisfied with Lloyds’ response to her complaint so she brought her complaint to this service.

Miss O’s overdraft was originally approved on account ending 6960 in 2014. But as Lloyds haven’t agreed to us considering Miss O’s complaint from this point due to it being referred to us too late – being outside the time limits set by the financial services regulator (the complaint being brought six years of the event complained about) we have only considered the complaint and account activity from July 2016 onwards.

Miss O’s complaint was considered by one of our adjudicators. They thought that Lloyds’ ought to have realised that Miss O was experiencing financial difficulty by 24 February 2017 when her overdraft limit was increased on her account ending 6960 because she didn’t see or maintain a credit balance on the account and was using the overdraft to make ends meet. They thought Lloyds shouldn’t have added any more interest, fees and charges from this point onwards. And as Miss O was already struggling with this overdraft Lloyds shouldn’t have approved her for an overdraft on her second account ending 2368 and thought that Lloyds should refund all charges on this.

Regarding account ending 6960 Lloyds says that despite Miss O using her overdraft it had no concerns with this because regular income was being paid into the account and bringing it into a credit balance every month and that there were no signs of financial difficulty. Lloyds says Miss O had a lot of non-essential spending on the account and if she’d reduced this, she could’ve avoided entering unarranged overdraft.

Regarding account ending 2368 Lloyds had already refunded overdraft charges from 3 October 2018 amounting to £283.49 as it could see Miss O hadn’t been using the overdraft for short term lending and would further refund charges applied since March 2018 amounting to £39.25 and back date the default to reflect this.

Miss O’s complaint has now been 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 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 think that Lloyds acted unfairly when it continued charging overdraft interest and associated fees after it increased Miss O's overdraft limit to £660 on account ending 6960 on 24 February 2017. By this point, it ought to have been clear that Miss O was in no position to sustainably repay what she owed within a reasonable period of time.

By this point, Miss O 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 O was already clearly struggling to manage her existing overdraft limit of £600 with Lloyds when it once again agreed to increase her limit a further £60 to £660. A cursory look at her statements show she that even after Miss O received monthly incoming credits or salary she still wasn't able to bring down the overdraft from the limit she already had and often went above her overdraft limit and was struggling to make ends meet and relying on her overdraft to make essential payments and fund other borrowing.

I accept that at times Miss O's statements show some spending on non-essential items but the vast majority of this type of spending was after the point at which I think Lloyds should've stepped in. Lloyds has also raised the fact Miss O could've used funds from a loan to bring down her overdraft. But again, the loan funds were received after the point at which I believe Lloyds ought to have known Miss O was struggling with her overdraft.

And the same can be said for account ending 2368. As Miss O was already struggling with the overdraft on her other account, I don't think Lloyds should've approved further borrowing on this account.

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

Miss O ended up paying additional interest, fees and charges on her overdrafts and this ended up exacerbating difficulties she already had in trying to clear them. So I think that Lloyds didn't treat Miss O 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 O's complaint for Lloyds to put things right by:

- Re-working Miss O's current overdraft balances so that all interest, fees and charges applied to it following the limit increases from 24 February 2017 (for account ending 6960) and 18 January 2018 (for account ending 2368) onwards are removed. This means that from 24 February 2017 onwards interest can only be charged on the first £600 of any overdrawn balance (for account ending 6960). And for account ending 2368, all the interest and charges need to be removed.

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Miss O to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss O'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 February 2017 and 18 January 2018.

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 O 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 O's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Miss O 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 uphold Miss O's complaint and direct Lloyds Bank PLC to 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 O to accept or reject my decision before 17 April 2023.

Caroline Davies  
**Ombudsman**