

The complaint

Mr and Mrs W complain that Lloyds Bank PLC (“Lloyds”) acted irresponsibly when it allowed them to increase their overdraft limit from £1,000 to £2,500. They want Lloyds to remove the default applied to their credit files.

What happened

Mr and Mrs W held an account with Lloyds with an agreed overdraft limit of £1,000. In September 2019 Lloyds approved a limit increase to £2,500.

Mr and Mrs W complained to Lloyds that the increase in their overdraft limit was irresponsible. Lloyds upheld Mr and Mrs W’s complaint regarding the overdraft limit increase from £1,000 to £2,500 in September 2019.

To put things right Lloyds:

- Refunded all overdraft fees and charges applied since 14 September 2019 amounting to £1,834.45 (this was applied to the outstanding overdraft debt that had been sold to a third party but wasn’t enough to pay the debt off).
- Lloyds backdated the default on Mr and Mrs W’s credit file to September 2019.
- Lloyds compensated Mr and Mrs W £80 for distress and inconvenience.

Mr and Mrs W were unhappy with this and brought their complaint to this service. They want the default removed as they say it only occurred as a result of irresponsible lending.

One of our adjudicators looked into Mr and Mrs W’s complaint and thought that what Lloyds had already done to settle the complaint was in line with what we’d recommend and didn’t think Lloyds should do anything more.

Mr and Mrs W disagreed and have now asked that their complaint be 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.

Having carefully considered everything, I think that what Lloyds has already agreed to do to put things right for Mr and Mrs W is fair and reasonable in all the circumstances of this complaint. I’ll explain why I think this is the case.

It might help for me to start by explaining that where a business accepts (or we decide) it did something wrong, we’d expect the business to put the consumer in the position they would be in if that wrong hadn’t taken place. And in an ideal world, we’d tell a business to put a consumer in the position they’d now be in if they hadn’t been given the credit they shouldn’t have. But for complaints about funds which shouldn’t have been provided this isn’t straight

forward as the funds were provided and, in most cases – such as here, have long since been spent.

So we look to try and find some other way to put things right. And where a business increases or continued to allow a consumer to use a credit facility which it should have realised was unsustainable, we'd typically expect it to put the consumer in the position they'd be in now if they hadn't paid any further interest and charges on that credit. This means we'd normally expect a lender to refund the interest and charges added to any credit from the point the lender ought to have realised it was unsustainable.

In this case, after reviewing all the information on the account held by Mr and Mrs W and their overdraft usage, I agree that Lloyds shouldn't have increased their overdraft limit as the increase was too large (more than double of the limit previously) and leading up to the increase they failed to maintain a credit balance for a reasonable period of time. So it should've been clear that the overdraft limit increase from £1,000 to £2,500 wasn't affordable for Mr and Mrs W.

Lloyds has already done what I'd expect it to do to put things right based on this finding – as outlined above. Mr and Mrs W were 'refunded' all of the interest, fees and charges caused by the overdraft facility. And no interest is due as the refund didn't take the account into credit. Furthermore, I can see from Mr and Mrs W's credit report that Lloyds has backdated the default on the account to the point when the overdraft limit was increased and deemed irresponsible.

Mr and Mrs W want the default removed from their credit files as they say the account was only defaulted as a result of the irresponsible lending. But I haven't seen enough to show me that Mr and Mrs W would've been able to afford to pay back the £1,000 overdraft they had before the increase within a reasonable period of time and avoided a default. Indeed, Mr and Mrs W's statements show that within a couple of months of the increase in limit that they had hit the top of this limit – they weren't paying off their overdraft they were borrowing further. So I can't say it's likely their account wouldn't have defaulted anyway.

Credit reporting provides valuable information about how customers have conducted their financial affairs and without this information lenders are unable to make informed lending decisions. And based on what I've seen having the default removed from Mr and Mrs W's credit file wouldn't be giving an accurate reflection of how they managed their financial affairs.

So it follows I don't agree that the default should be removed and I'm not requiring Lloyds to do anything more.

My final decision

For the reasons I've explained, I'm satisfied that what Lloyds Bank PLC has already done to put things right for Mr and Mrs W is fair and reasonable in the circumstances of this case. Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W and Mr W to accept or reject my decision before 28 August 2023.

Caroline Davies
Ombudsman