

The complaint

Mr L is unhappy Lloyds Bank PLC granted him an overdraft, and then closed his current account before he could come to an arrangement to repay the overdraft.

What happened

From the information I have, Mr L took out an overdraft for £1,000 on 10 June 2021. Mr L says he fell into financial difficulties, and Lloyds closed his current account before the end of a 30 day hold they'd agreed with him – which he felt was unfair. I understand Mr L also complained about his credit file being impacted, and that Lloyds suggested they might sell the debt.

Lloyds wrote to Mr L, saying they were sorry they'd agreed an overdraft with him, and would refund £146.57. They said this is because they should have noted Mr L had no income, he was making gambling transactions, and payments to a debt purchaser. Lloyds said this period covered 10 December 2021 to 31 December 2021 (Lloyds actually meant 10 June 2021 from when the account was opened). The reason Lloyds capped this offer to 31 December 2021 is because that's when they sent a second letter of support to Mr L – asking him to get in touch. Lloyds went on to explain they'd contacted him multiple times, but he only got in touch in February 2023. Lloyd added a pre-closure letter was sent to him on 27 July 2023 giving him 30 days' notice before closing his account – but, due to a 30-day hold placed on 26 June 2023 the account closed on 9 August 2023. Lloyds said they were sorry the letter wasn't clear about when his account would close.

Unhappy with this, Mr L asked us to look into things. Our Investigator clarified the offer Lloyds were making – and ultimately they decided to refund all fees and charges Mr L had incurred since the overdraft was granted. They also said they'd backdate the default to 10 June 2021, which was when they'd granted the overdraft. They also let us know the amount being refunded would leave an outstanding balance.

Our Investigator thought this offer was fair – and that Lloyds had given Mr L chances to avoid the closure of his account by paying what they'd said was due.

Mr L didn't accept this, focusing on the default he said this shouldn't be applied to his account given Lloyds accepted they'd made an error in granting the overdraft.

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.

The key question for me to answer, is whether Lloyds have now made a fair offer to put matters right.

Lloyds have accepted they shouldn't have granted Mr L an overdraft of £1,000. I've seen nothing to suggest that'd lead to an unfair outcome for either party, so I'm happy to accept this.

Generally, we'd expect in these circumstances a refund of all interest and charges that'd been applied. Although I can see there was some confusion when Lloyds said the refund started from – 10 December 2021 – it's since been confirmed Lloyds have offered to refund all interest and charges incurred since the overdraft was placed on the account which was 10 June 2021.

In addition to that, they've said they'd backdate the default – also to when the overdraft was added on 10 June 2021.

It's generally expected that someone who has borrowed money should repay what they've borrowed. I've seen nothing to suggest Mr L shouldn't be required to do this – so I'm satisfied that's fair in his circumstances.

And given Mr L hasn't repaid all of the debt, despite this refund of charges, it's true and accurate to say the account has defaulted. While Mr L shouldn't have been given the account in the first place, it doesn't mean it's wrong to report how the account itself has actually ended up being run.

Separate to this, I've also noted Mr L's concerns about Lloyds' action in closing down his account – and says this is partly responsible for the default.

I'm afraid though I don't agree. Mr L's account was overdrawn for significant periods of time. And Lloyds' notes show they tried on many occasions to speak to him to discuss the account. From the information I have, he agreed a bit of time in February 2023, and then a further 30 day hold in June 2023.

Lloyds had been asking for the account to be brought back into line since January 2023. Although Mr L engaged with Lloyds in February and again in June, his account was over the overdraft limit for more than six months at the time of the account closure.

The Information Commissioner's Office issues guidance about when an account should be defaulted – and says generally it should be no later than six months from when someone first went into arrears. Here, for Mr L, it was January 2023 when Lloyds first started asking him to repay the account. So, although I do understand his frustration about the communication, I don't think this has impacted Mr L in a way I need to address.

Finally, I've noted Mr L mentioned to Lloyds he didn't want his account sold to a debt purchaser. This is something lenders can do when they feel a relationship with a customer has broken down, so I've seen nothing to suggest Lloyds have acted unfairly here.

My final decision

I partially uphold this complaint and require Lloyds Bank PLC to:

- Refund all interest and fees applied as a result of Mr L's overdraft
- Backdate the default to 10 June 2021

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 7 May 2024.

Jon Pearce
Ombudsman