

The complaint

Miss O complains about a claim she made to Lloyds Bank PLC under the direct debit guarantee, and the bank's subsequent handling of her account and overdraft.

What happened

In April 2023, Miss O raised a dispute under the direct debit guarantee which was refused, so she raised a complaint. Lloyds rejected the complaint as the direct debit had been collected from Miss O's account monthly for over 20 years and she was advised to contact the originator to discuss the dispute. Miss O disagreed, so she complained to Lloyds.

While investigating her complaint, Lloyds reviewed her account and felt her overdraft limit of £1,300 was inappropriate for her and shouldn't have been agreed. It refunded all interest paid by Miss O between 24 July 2017 and 28 February 2022 when it had written to her to offer support with her account – a total of £598.82 – and offered compensation of £100. As it felt the overdraft was inappropriate for Miss O, it said it would remove it on 11 August 2023. Lloyds said Miss O should contact it if she needed support to repay the debt.

Miss O is unhappy with her direct debit guarantee claim being rejected, but also Lloyds' decision to remove her overdraft. She says the overdraft wasn't part of her complaint and its removal has caused her financial difficulty. She referred her complaint to our service.

One of our investigators looked into Miss O's complaint. She agreed with Lloyds' position on the direct debit guarantee claim, and supported its' decision to remove the overdraft which it felt was unsuitable for Miss O. But our investigator felt Lloyds ought to repay all interest charged from 24 July 2017 until 14 August 2023 (the date the overdraft limit was removed).

Miss O accepted what our investigator said, but Lloyds didn't, so the complaint was prepared for a final decision from an ombudsman. In the meantime, Lloyds has accepted the recommendation of our investigator, but Miss O has asked for a final decision anyway. She is concerned that she was left short of money as a result of the overdraft removal. She says as the overdraft was removed after her salary had been paid in, she had £700 less to fund things like school uniforms and she struggled to clothe and feed her children.

Our investigator referred Miss O's concerns about this to the bank. Once the bank presented its position, our investigator issued her thoughts on that. She said the bank had applied the initial refund to the account (£598.82) and when it removed the overdraft (£1,300) the account was in credit. The bank had offered Miss O support to help her repay the difference of around £700, but Miss O had instead transferred her account to another bank. This meant the credit balance was transferred to that bank and her account with Lloyds was closed.

Our investigator felt Lloyds hadn't acted incorrectly and Miss O's income and expenditure showed she had sufficient disposable income to meet her expenses.

Miss O didn't agree so the complaint has been passed to me for a final 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.

Both Lloyds and Miss O have accepted what our investigator has said about the direct debit guarantee claim and the removal of the overdraft and the refund offered. I agree with the recommendation of our investigator that Lloyds should refund all interest charged from 24 July 2017 to 14 August 2023 and am pleased to say that has been agreed by all parties.

So I'll not say any more about those aspects of the dispute and concentrate instead on Miss O's comments that she was left in financial difficulties due to the removal of her overdraft.

I realise that Lloyds' decision to remove Miss O's overdraft will have come as a shock to her as she'd not raised a complaint about that. But I also recognise that Lloyds has a duty to act as a responsible lender and ensure lending it makes is suitable for the customer. Furthermore, overdrafts are 'repayable on demand' which means a bank can request repayment at any time provided it gives appropriate notice. In this instance, the bank gave Miss O a month's notice of its intention to remove the overdraft.

Following the refund of £598.82, Miss O's account was around £670 overdrawn. Her salary of just over £2,900 was then paid into her account which left her around £2,200 to fund her expenditure for the month once the overdraft limit was removed. There is no dispute that Miss O knew the limit was going to be removed, and that if she had concerns about repaying it, she could talk to the bank about that. I've seen no evidence which suggests she approached the bank for assistance. Had she done so, I'd have expected it to reach an agreement on a repayment plan enabling her to repay the overdraft over time.

But instead, Miss O took the decision to move her banking away from Lloyds which of course is her prerogative. It had the effect of clearing the overdraft in one go as Lloyds could not commit Miss O's new bank to any repayment plan if it might have agreed with her. Lloyds could only close her account with it and transfer her credit balance at the time to her new bank.

I appreciate the effect of this meant Miss O had around £700 less than she may have anticipated for that month. While I don't doubt that may have changed her plans, looking at her regular expenses and direct debits, she was still left with a reasonable disposable income.

Overall, I don't think Lloyds acted unfairly in removing Miss O's overdraft and offering support to repay it. Miss O decided to transfer her account and didn't ask for support. Lloyds had no option but to comply with her request for the transfer, so I don't think it acted unfairly.

Putting things right

While I don't uphold the final aspect of Miss O's complaint, I do agree with the recommendation made by our investigator regarding the time frame over which interest should be refunded to Miss O. I've amended her recommendation slightly to take account of the fact that the account is closed and the debt repaid. The effect of the redress is the same. In order to settle this complaint, Lloyds should:

- Re-work Miss O's current overdraft balance so that all interest, fees and charges applied to it from 24 July 2017 to 14 August 2023.
- As there is no outstanding balance, the extra interest to be refunded should be

treated as overpayments and returned to Miss O, along with 8% simple interest on the date the overpayments were made until the date of settlement.†

- As the debt has been repaid in full Lloyds should remove any adverse information from Miss O's credit file.
- It's not clear from what I've seen if the £100 compensation Lloyds offered has been paid. If it hasn't, Lloyds should pay it with the rest of this settlement.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Miss O'Connell a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold this complaint. Lloyds Bank PLC should put matters right as 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 8 July 2024.

Richard Hale
Ombudsman