

The complaint

Mr E complains that Lloyds Bank PLC trading as Lloyds Bank ("Lloyds") unfairly recorded a default on his credit file in relation to an account that he had switched to another Bank.

What happened

Mr E previously banked with Lloyds and had an arranged overdraft on his current account. In February 2023, Lloyds was informed that Mr E wished to switch his current account to another provider. But when that switch was completed Mr E's overdraft balance of around £1,000 remained outstanding. Lloyds wrote to Mr E to ask for that balance to be repaid.

Mr E told Lloyds that he was facing some financial problems, so it agreed to a temporary plan to allow him to repay his overdraft at a rate of £40 per month. But Mr E failed to make some of those payments on time and the plan was broken. A new plan, on the same repayment terms was agreed in July 2023. But again Mr E failed to make the required payments on time. So, on 21 October 2023 Lloyds wrote to Mr E to warn him that it intended to default his account if he didn't repay the outstanding balance.

Mr E got in touch with Lloyds a few days later. On that call Lloyds agreed to delay any collections activity for up to 30 days to allow Mr E to reassess his financial situation. It agreed that Mr E would get back in touch before the end of that period to discuss a new payment arrangement. But Mr E didn't get back in touch with Lloyds. So on 29 November Lloyds told Mr E that it would be closing his account if he didn't get in touch within the next 30 days. On 5 January Lloyds closed Mr E's account and recorded it as being in default. It passed his outstanding balance to a third-party debt collection company.

Mr E complained that Lloyds hadn't made him aware that it intended to default his account. He said that, given the impact of a default on his credit score, he would have taken steps to repay what he owed had he been aware of the proposed actions. Lloyds didn't agree with Mr E's complaint. It said that it had sent him the required information before the default had been added. So it thought it had acted correctly and didn't need to make any changes to how it reported Mr E's account. Unhappy with that response Mr E brought his complaint to us.

Mr E's complaint has been assessed by one of our investigators. He thought that the letters Lloyds had sent to Mr E had been sufficient to make him aware that he needed to repay his outstanding balance, and the likely consequences if he didn't. Those letters were correctly addressed and sent to Mr E's home. So he didn't think that Mr E's complaint should be upheld.

Mr E didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr E and by Lloyds. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

In February 2023 Mr E decided to transfer his banking arrangements away from Lloyds. It appears that request was made through the industry account switching service, and Lloyds had little choice but to transfer the account. But the transfer didn't involve the repayment of the outstanding overdraft that was on the account. So after the switch Mr E still owed a considerable sum to Lloyds. It seems that Mr E doesn't dispute that debt, and has the intention to repay what he owes when his financial circumstances allow.

Since Mr E had effectively closed his account with Lloyds, his authorised overdraft was also cancelled. That meant that the remaining overdraft became unauthorised, and Lloyds reasonably wanted some commitment from Mr E for its repayment. When Lloyds and Mr E spoke in April 2023 he told the bank he was facing some financial problems. So he asked Lloyds for some flexibility in repaying what he owed.

Given that information the regulator would expect Lloyds to take steps to ensure that Mr E was treated fairly, with forbearance and with due consideration. It provided firms with a number of examples of this sort of behaviour including the consideration of reducing or waiving future interest charges, allowing the payment of arrears to be deferred, or accepting token payments for a reasonable period of time.

But it is my understanding that the regulator's guidance isn't intended to leave debts outstanding for an indefinite period of time. Instead the requirement for lenders to show forbearance and due consideration to consumers who are facing financial difficulties is to allow a reasonable period of breathing space for consumers, facing an unexpected fall in their disposable income, to review their options. I haven't seen anything that makes me think that Lloyds treated Mr E unfairly at that time.

Mr E didn't make all the payments on the repayment plan as he had agreed. I have thought about Mr E's explanation that some of the payments were returned due to the way in which Lloyds had categorised his account. But I'm not persuaded that is a reasonable explanation for the payments not being made. Lloyds notes from the various times that Mr E called the bank suggest that he continued to face difficulties with his finances, and that he was finding it difficult to make the repayments.

Despite Mr E not meeting the terms of the initial payment plan, Lloyds agreed to set up a new payment plan, on the same terms. But as before Mr E failed to make the payments he had agreed on time. So I don't think it was then unreasonable for Lloyds to decide to require Mr E to fully repay what he owed.

Lloyds has provided us with a copy of a letter it sent to Mr E on 21 October. That letter was a

formal demand for the full repayment of what Mr E owed at that time - £718.36. And it warned Mr E that, if payment wasn't received within the next 30 days or a way forward wasn't agreed, it might result in a default being added to his credit file. That letter was sent to Mr E's home address – the same address that he gave to us in relation to this complaint.

And I think it likely that Mr E received that letter. Just a couple of days later he did get back in touch with Lloyds. And, given what Mr E told Lloyds about his finances, it agreed to an additional 30 day hold period before it decided whether to take any further action on the outstanding debt. But it told Mr E, both on the call and in a letter, that the temporary hold would end of 25 November. It asked Mr E to get back in touch before the end of the temporary hold.

Lloyds didn't hear anything further from Mr E. So I think it was reasonable that at the end of the temporary hold period, it continued its normal collections activity. Lloyds wrote to Mr E on 29 November to tell him that his account would be closed after 30 days. When once again Mr E didn't respond, Lloyds completed its collections activity on 5 January 2024 by defaulting Mr E's account and passing it to a third party debt collection company.

I am satisfied that the letters Lloyds sent to Mr E clearly set out what would happen if he didn't clear his outstanding balance, or at the very least agree a new repayment arrangement. And given those letters were sent to the correct address I don't think Lloyds could be considered at fault even if they weren't delivered (which for the avoidance of doubt I think they were given what I've said above). So I am satisfied that Lloyds acted fairly when, in January 2024, it defaulted Mr E's account.

I appreciate how disappointing this decision will be for Mr E. The default will have a lasting impact on his credit file. Lloyds has confirmed that it will update its reporting to show the default as being settled, if Mr E pays the outstanding balance. But I think that Lloyds has acted fairly in both adding the default and in how it is being reported to the credit reference agencies.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Lloyds Bank PLC trading as Lloyds Bank.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 4 November 2024.

Paul Reilly
Ombudsman