

## **The complaint**

A limited company, which I will refer to as C, complains that Lloyds Bank Plc treated it unfairly in respect of a fixed rate loan.

## **What happened**

There is no dispute here about what happened; the dispute is about whether Lloyds acted fairly. Everyone agrees:

- At the beginning of 2024 C had three loan accounts with Lloyds: a variable rate loan, a fixed rate loan, and a bounce back loan. (This complaint is about the fixed rate loan account only, but I will briefly mention the other loans because I think they are relevant to the complaint C has made.)
- By the end of January 2024 C missed several payments on its loans, meaning that all three of them were in arrears.
- On 30 January 2024 Lloyds wrote to C's director demanding that C repay the full amount of the bounce back loan.
- On 31 January 2024 Lloyds wrote to C's director again, this time demanding full repayment of the fixed rate loan. Lloyds said that C owed just over £182,250 in respect of the fixed rate loan. That amount included a break cost of just over £7,000. The break cost arose because the fixed rate loan ended earlier than originally agreed.
- Lloyds took the money C owed in respect of the fixed rate loan from C's current account – leading to a very substantial unarranged overdraft.
- C's director subsequently spoke with Lloyds and agreed a "Return to Order" (or RTO) plan for the overdraft. Briefly, he agreed to make payments between May 2024 and April 2025 with the aim of reducing C's £178,000 overdraft to zero over that period.
- Lloyds charged interest on C's overdraft at a rate of 16.5%. I understand that was the bank's normal rate for unarranged overdrafts. Lloyds charged interest at a rate of substantially less than 16.5% on C's other borrowing.

C's director told us that he had been abroad at the beginning of 2024, and had not received the bank's previous correspondence about arrears (which he said the bank had sent to the wrong address). He didn't think that Lloyds had treated C fairly in respect of breaking the fixed rate loan, and he considered that the rate of 16.5% was far too high.

One of our investigators looked at this complaint, but he did not uphold it. Briefly, he said:

- He was satisfied that the formal demands were sent correctly to the address the bank had on file. He was not persuaded that C's director had ever told the bank not to use

that address.

- He considered that C's director knew of the arrears position on the loans, and that payments had not been made for several months. He also knew, or ought reasonably to have known, of the consequences of missing multiple repayments without contacting the bank. The loan documentation made clear that missed payments could result in bank demanding immediate full repayment of the loan.

C's director did not accept our investigator's conclusions, so the matter was referred to me.

### **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 done so, whilst I am sorry to further disappoint C's director there is very little I can add to what our investigator has already said. I am satisfied that Lloyds was entitled to break the fixed rate loan when it did, and I am further satisfied that C's director freely agreed to Lloyds' Return To Order proposals. But I will make some further comments below.

#### ***C's address***

Lloyds says that it sent all of its arrears notifications to the address it held on file. C's director does not dispute that – but he says the address Lloyds held on file was out-of-date.

I know C's director says that he had given Lloyds his new address, I haven't seen any evidence that persuades me that C's director had told Lloyds before February 2024 that he had moved. That means I think it was reasonable for Lloyds to continue to use the address that it had on file. I don't see anything wrong with Lloyds' decision to use letters to communicate about the arrears.

#### ***Lloyds' decision to break the fixed rate loan***

I understand why C's director was very unhappy about Lloyd's decision to break the fixed rate loan – especially as the bank allowed the (lower interest) variable rate loan to remain in force. The bank's decision to break the fixed rate loan meant that C incurred a break cost, which was added to the loan balance. The total amount owing in respect of the fixed rate loan was then deducted from C's current account, leaving it with a very substantial unarranged overdraft.

I'm aware that C had previously missed payments and then brought them up to date. But I don't think that ought reasonably to have led C's director to have concluded that Lloyds was relaxed about allowing arrears to accrue. On the contrary, I think C's director's previous contact with the bank should have left him in no doubt that there was a risk the bank would call in the loan if C didn't make its contractually agreed payments.

I am satisfied that Lloyds had the right, but not the obligation, to break C's fixed rate loan when it did. Lloyds could have chosen to wait longer before taking action, and indeed it did wait longer in respect of C's variable rate loan. But the fact Lloyds *could* have waited longer does not mean it was required to do so. The loan was in arrears, and despite sending reminders the bank had not received any contact from C's director. I know C's director says that only two payments had been missed, but in the overall circumstances – including the arrears history – I don't think it would be fair for me to criticise Lloyds for calling the loan in and deducting the balance from C's current account.

### ***The Return to Order agreement***

C's director has suggested that the interest rate of 16.5% on the unarranged overdraft is obviously unfair. But I do not agree.

The Financial Ombudsman Service is not a regulator, and we will not generally interfere with a bank's commercial judgement. It is for Lloyds, and not for me, to say what rate it wishes to charge on overdrafts. But I do note that the rate of 16.5% is broadly in line with the rates Lloyds' competitors charge for unauthorised business overdrafts. I also note that Lloyds rates for arranged and unauthorised business overdrafts are not significantly different (as at today's date, arranged overdrafts of less than £25,000 are charged at 10.85% above Bank of England base rate, and Lloyds' unauthorised borrowing interest rate is also 10.85% above Bank of England base rate.)

However, I don't think C's director's objection here is a general concern about a rate of 16.5% on business overdrafts. I think his objection is to a rate of 16.5% being charged on C's particular debt, which he has described as a "loan".

I acknowledge that C's debt started out as a fixed rate loan, but it was effectively converted to an unarranged overdraft. For the reasons I've given above, I think that conversion was fair. It follows that I don't think it was unfair for Lloyds to charge the interest rate it usually charges on unarranged business overdrafts.

I've listened to the call in which C's director and Lloyds agreed the Return To Order plan. C's director was keen for Lloyds to offer a lower rate of interest, but Lloyds said C was not eligible for any alternatives with a lower rate. In my view, that was a commercial decision that the bank was entitled to make. It is possible that other lenders would have offered lower rates, but that doesn't mean that Lloyds was obligated to do so.

C's director says he only agreed to the Return to Order plan under duress. But I haven't seen anything to suggest that Lloyds put any inappropriate pressure on him. The situation was inherently stressful, in that if C's director could not reach agreement with Lloyds then the bank might have chosen to enforce its security. But that is the nature of secured lending, and I don't think it was unfair for Lloyds to have reminded C's director of the consequences of failing to make payment.

### **My final decision**

My final decision is that I do not uphold C's complaint about Lloyds Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask K to accept or reject my decision before 24 July 2025.

Laura Colman  
**Ombudsman**