DRN-5531532

The complaint

Mr H complains that Lloyds Bank PLC delayed in refunding an interest penalty when he closed his fixed rate bond.

What happened

In February 2024 Mr H took out a fixed rate bond with Lloyds. However, his accounts were closed down so he had to cash in his bond. To do this he had to attend a branch and he wanted to ensure he wouldn't be charged the early redemption penalty. He did this on 27 March when the bond was closed. He said he had to wait around for a long time before the branch staff could deal with him. Then, when he received the funds from the bond, he found that he was charged the interest penalty of around £500.

Lloyds had agreed that the penalty wouldn't be charged and advised Mr H that it was paying the money back to him. However, the first attempted payment failed, and Mr H had to chase the matter up. Lloyds redid the payment, which went through. Subsequently Mr H made a further complaint and demanded compensation. He wanted to be paid the full amount of interest had he been able to keep the bond for a year.

Lloyds paid Mr H £50 compensation. It also paid interest at 8% on the penalty charge from the date of the closure of the bond until the repayment of that charge. This amounted to £4.

On referral to the Financial Ombudsman Service, our Investigator said that Lloyds had already taken steps to compensate Mr H, in line with our guidance.

Mr H didn't agree and the matter has been passed to me for review.

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.

I am not concerned in this decision with the closure of Mr H's accounts. That is being dealt with separately by another Ombudsman at this service. So, I won't be considering whether or not that closure was reasonable. I will just be considering the issues around the closure of the bond.

This was a fixed rate bond. To close it the customer had to attend a branch. I appreciate that Mr H had to wait a long time but a branch can't make any guarantees about waiting time. Nevertheless, I have taken that into account.

I appreciate also that Mr H was upset to find he was charged the penalty for closing the account early. As this wasn't his fault, Lloyds recognised that he shouldn't have been charged a penalty.

I've noted also that when Lloyd tried to refund the penalty, the payment didn't go through at first and Mr H had to chase the matter up again.

From the date of the request for closure until full repayment, including refunding the penalty took six days. And while I appreciate it was a small payment, Lloyds also paid the interest on the £500 for those six days at a much higher rate than the bond's rate, so Mr H didn't lose out.

Lloyds paid compensation of £50, plus the £4 lost interest. I think this was a one-off occurrence – an administrative error and a short delay. Bearing in mind the time involved I think the payment of compensation was reasonable. I won't ask Lloyds to pay any further interest as Mr H has received all the monies from the bond and would have been able to invest those elsewhere.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 September 2025.

Ray Lawley
Ombudsman