

The complaint

Mr M complains that Lloyds Bank PLC unfairly defaulted his account and then sold off his debt without considering his vulnerability.

What happened

The detailed background to this complaint is well known to both parties. So, I'll only provide an overview of some of the key events here.

In mid-2023, Mr M found himself in a vulnerable position as after being made redundant he became homeless.

As Mr M had gone overdrawn on his Lloyds bank account, Lloyds sent him letters:

- Dated 23 May 2023, requesting Mr M call them due to an unarranged overdraft of £1,017.11
- Dated 6 June 2023. As they didn't get a response to the above letter, this was a formal demand for payment which said:
 - *'It's important you either pay the full overdraft balance, or the unarranged overdraft amount in the next 30 days from the date of this letter. Or, call us and agree a way forward. If you don't, we:*
 - *Will close your account two months from when you receive this letter.*
 - *May update your credit file with a default. This would stay on your file for six years and may make it harder for you to borrow money in the future.*
 - *May ask a debt collection agency to recover the money owed on our behalf. They could take you to court to get a judgment that would require you to pay us the money you owe.'*

Mr M explains that he didn't receive these letters as he was no longer at the address registered with Lloyds and experiencing a crisis due to being homeless. Mr M could access his mobile banking app but he says the letters weren't shown there.

Mr M says that as he knew he was in debt to Lloyds he decided to be proactive, calling them on 18 July 2023 to discuss his difficulties. Also, to explain some positive changes in circumstances, as he had recently found employment and would shortly be moving to a new address.

It wasn't possible for Mr M to set up a payment plan on this call, due to him lacking information on his salary and accommodation costs. So, the Lloyds agent put a thirty day hold on his account and it was agreed that Mr M would call Lloyds back before the hold expired on 17 August 2023. He would also collect his mail and update his address.

On 20 July 2023, Lloyds sent Mr M a letter to the address he no longer resided at, which said:

- *'We've frozen interest on your overdraft for the time being.*
- *As you're in financial difficulty, we've stopped charging interest on your arranged overdraft for now.*
- *When will interest start again?*
 - *When things get better for you. We will write to you when we do this.*
- *What will happen during this time?*
 - *We won't charge you any arranged overdraft interest on this account.*
 - *You can carry on using your account as normal. If there's an available balance.*
 - *And please do get in touch if your situation changes.*
- *We hope this interest freeze helps you until your situation gets better.'*

Lloyds didn't get a call or response in the thirty day period, so they defaulted Mr M's account on 18 August 2023 and as stated in the final demand letter dated 6 June 2023 and their terms and conditions they sold off his debt to Company A (a debt collection company).

As Mr M didn't call Lloyds, update his address or receive any letters, it wasn't until some later that he realised this.

After communicating with Company A, Mr M complained to Lloyds as he considered they'd treated him unfairly. As Mr M disagreed with Lloyds' action he didn't pay Company A and this subsequently led to a County Court Judgement (CCJ) against him, which added to his distress.

In response to his complaint, although Lloyds said their agent could've explained the scripts he read in more detail and offered £20 compensation for this, they couldn't see they'd done anything wrong.

As Mr M didn't think this was a fair outcome he brought a complaint to our service. There are two strands to his complaint:

1. Lloyds failed to provide him with adequate support as he was a vulnerable customer.
2. Lloyds communications about the default and consequences (selling his debt to Company A) were unclear.

Mr M considers that these failings and the subsequent CCJ have affected his ability to secure housing and prevented him rebuilding his life. Also, causing him significant hardship, emotional and financial distress.

Our investigator didn't uphold Mr M's complaint; however, as he remains dissatisfied, his complaint has been passed to me to consider.

I issued the following two provisional decisions:

Provisional Decision No. 1, dated 16 June 2025

This said:

I've considered the relevant information about this complaint.

Our investigator didn't uphold this complaint, but I think Lloyds should've done more and this provisional decision sets this out.

The deadline for both parties to provide any further comments or evidence for me to consider is 30 June 2025. Unless the information changes my mind, my final decision is likely to be along the following lines.

If Lloyds Bank PLC accepts my provisional decision, it should let me know. If Mr M also accepts, I may arrange for the complaint to be closed as resolved at this stage without a final decision.

What I've provisionally 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, my decision is currently different to the investigator and, based on the information received so far, I'm upholding this complaint.

I should first say that:

- *From reviewing Mr M's submissions, I'm satisfied that between May and August 2023 he was a vulnerable customer, and the Financial Conduct Authority (FCA) guidance applies here.*
- *I requested further information from Mr M to understand his reasons for not collecting his post, changing his address or contacting Lloyds before 17 August 2023. Mr M explained the following and provided supporting evidence:*
 - *He remained homeless as his plan to move into rented accommodation fell through.*
 - *He didn't receive his first salary payment until late August 2023 due to a payroll issue.*
 - *He explains that due to his homeless crisis continuing and him not being paid as anticipated his priority and focus was 'to survive and secure shelter'. And as his previous address was some distance away, he wasn't able to travel to collect correspondence.*
- *I recognise the difficulties Mr M experienced here. But as he didn't contact them, Lloyds wouldn't have known about these when they defaulted his account on 18 August 2023.*

Although Lloyds wouldn't have been aware of Mr M's change in circumstances, considering the information they obtained on his vulnerability, I think their communications should've been much clearer and they should've been more cautious and taken additional steps before going ahead with the default.

I say this because the agent didn't appear to have been aware that the final demand letter of 6 June 2023 had been issued and a default would automatically occur at the end of the thirty day hold. If he was aware, the agent should've realised it was more likely than not that Mr M wouldn't have known about it. This is because Mr M had told him he was homeless and no longer resided at the address where the letter had been sent. Although Mr M said he would retrieve his post, there was a risk the letter would've been returned to sender or lost. So, I think the agent made a mistake by not communicating a default would be an automatic consequence.

Also, the agent came across as very supportive and I think the following type of comments recognised this:

- *'Your personal well-being is just as important as your financial one.'*
- *'Putting a thirty day hold to give you that time to get all the information you need so we can get a good payment plan in place'.*

But he may well have also given Mr M the impression his account wouldn't be under immediate default threat, considering his vulnerability.

When he asked Mr M if thirty days was sufficient and Mr M said he needed more time ('sixty days or so' once everything had calmed down and was back to normal), the agent responded by saying 'of course' and 'I appreciate that' and, perhaps because he didn't know, he didn't say that wouldn't be possible.

In addition, although the agent did outline risks and communicate the need for Mr M to call back at the end of the thirty day hold, he used words like 'eventually' and 'may' in the following comments which would've been likely to give Mr M the impression there wasn't a risk of an automatic default:

- *'If we weren't to set up a plan for you and the account stays in this position that can eventually lead to an account closure that will appear as a default on your credit file etc.*
- *We may look to close your account if you get behind.'*

And he said Mr M might 'hopefully', by the end of the thirty days, have gathered more information on his budget to allow a plan. However, if the agent knew the default would immediately occur at the end of the thirty days, this would've been too late.

Furthermore, even if Mr M had been able to visit his old address and retrieve correspondence, the letter likely to be viewed would've been the one sent out after the call (on 20 July 2023) and this letter appears supportive, doesn't say a formal demand had been issued on 6 June 2023 and still applied and that the account would be defaulted if a plan wasn't set up after the thirty day hold.

I appreciate the agent read a script but considering the lack of clarity and mixed messages in the above, Mr M's comments about his vulnerability and his circumstances and Mr M being proactive and contacting Lloyds, I don't think it was fair for Lloyds to have defaulted Mr M's account the moment the thirty days was up.

I think they should've taken an additional step before going ahead with the default, contacting Mr M via his mobile phone or app (which he said he was using) and arranging to speak with him to find out what had happened to his plans and why he hadn't called them. And I can't see that Lloyds did this.

I recognise Mr M didn't contact Lloyds until sometime later. However, when also considering the crisis Mr M was facing and his focus together with:

- *FCA guidance that Lloyds are obliged to support customers where it is clear they are vulnerable.*
- *Lloyds following comments which recognise some failings:*
 - *'I agree the level of service we provided wasn't adequate and not the level of service we want to provide.*
 - *I feel we should've explained to you in more detail on the call that the 30-day hold we applied wouldn't stop the account closing process that was already underway.*
 - *Whilst we did state this as part of the mandatory scripting, which you agreed to, I do feel this could've been explained in more detail for*

you.'

I think they should've been alert to the possibility that their communications weren't clear and might've caused confusion. Also, that Mr M might still be in a vulnerable position and need additional support.

Putting things right

As I currently think Lloyds should've done more before processing the default, I require them to take the following action to put things right.

Lloyds should, from the date of a final decision, reverse the default and bring back the debt less any charges or interest from Company A. Also, contact Mr M giving him thirty days to set up a repayment plan with them.

Regarding the CCJ:

- *I should make it clear that our service can't interfere with court orders.*
- *Lloyds were in contact with Company A but I can't see that they made a request for Company A to hold taking such action considering Mr M's complaint was escalated to our service. However, I recognise that the CCJ was Company A's decision rather than Lloyds'.*
- *Mr M will need to seek independent advice on reversing this.*
- *As the CCJ followed Lloyds' action which I currently consider to be unfair and unreasonable, I will review the following compensation amount if Mr M provides evidence that the CCJ has had a significant impact on him.*

Regarding compensation:

- *Assessing compensation for banking errors and the subsequent distress and inconvenience isn't an exact science and our approach when making awards is detailed on our website and tends to be modest.*
- *I currently have limited information on how the default and CCJ have practically impacted Mr M.*
- *Based on the available information, I'm persuaded Lloyds' action has caused Mr M considerable distress, upset and worry when he was emerging from a very difficult period in his life and trying to reestablish his credit score.*
- *I think a fair and reasonable amount of compensation here is £500.*

My provisional decision

My provisional decision is to uphold this complaint against Lloyds Bank PLC, and I require them to give Mr M:

- *Reverse the default and bring back the debt less any charges or interest from Company A.*
- *Contact Mr M giving him 30 days to set up a repayment plan with them.*
- *Pay Mr M £500 compensation.*

I'll look at anything else anyone wants to give me – so long as I get it before 30 June 2025.

Provisional Decision No. 2, dated 2 July 2025

This said:

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, I'm still upholding this complaint, but my requirements have changed. So, this is a second provisional decision.

Further to my above provisional decision, I received responses from both parties.

Mr M appeared to agree with my provisional decision but submitted further information to evidence the ongoing impact of the default and the subsequent CCJ on his housing situation.

Lloyds empathised with Mr M's situation and their only comments regarding my analysis of the 18 July 2023 call was that they could see where I was coming from, and the call could've included more detail.

Lloyds also submitted new information which I've paraphrased as:

- *Mr M's account had been in arrears since December 2022. He received support at that time but was unable to set up a repayment plan and a two-month nil arrangement was agreed. So, the events of July 2023 had been going on for some time and support had previously been provided.*
- *Due to a combination of the account arrears history and the size of the debt:*
 - *Only a short-term repayment plan, likely up to six-months, would've been acceptable which is standard banking practice.*
 - *From the information they had on other debt he was paying with the support of a debt management company, a request for a long-term plan with small payments looked the likely scenario. However, this wouldn't have been sufficient due to the size and timeframe of the debt.*
 - *So, even if contact was made, it was unlikely that an account closure and default could've been avoided.*

Also, regarding the lack of contact from Mr M, Lloyds said Mr M:

- *May not have understood the urgency following the call but he was of the understanding he needed to contact them after receiving his salary.*
- *Received his first salary payment in late August, so it would be reasonable to feel he should have called at this point or no later than the following month to discuss his account again.*
- *Didn't look to make contact with them until January 2024 after the debt had been sold.*

Having considered the above comments and looked at everything again, for the reasons mentioned in my provisional decision:

- *I still don't think Lloyds should've defaulted Mr M's account the moment the thirty days was up.*
- *I think they should've taken an additional step before going ahead with the default, contacting Mr M via his mobile phone or app (which he said he was*

using) and arranging to speak with him to find out what had happened to his plans and why he hadn't called them. And I can't see that Lloyds did this.

I appreciate Lloyds' points that Mr M should've contacted them at an earlier date and soon after he was paid. However, they should've known he was vulnerable and that there was a risk his circumstances could change, and I think their lack of clarity, together with their very supportive messaging, more likely than not contributed to his delay. Also, I'm persuaded Mr M's priority and focus was 'to survive and secure shelter' and that he was unwell with mental health issues in late 2023.

I recognise that Mr M had been in significant arrears (with an unarranged overdraft) for some time. Also, he had had support in 2022. So, his debt needed to be repaid in a reasonable period of time and support couldn't be for an indefinite amount of time.

The information on the debt and support received from Lloyds meant that when Lloyds spoke to him he would've likely needed to have committed to making high payments of £167 per month to avoid a default. Considering the terms and conditions of the account that he had agreed to, together with his arrears history and the support already given, I don't think it would've been an unreasonable requirement for Lloyds to ask him to make the payments in a six month period. I do though think this should've been made clear to Mr M on the 18 July 2023 call.

I obtained a breakdown of Mr M's income and expenditure so I could consider what would've likely happened if a call had taken place in August 2023, once Mr M had been paid. I found a significant disparity on what Mr M could afford to pay and what Lloyds were willing to accept. Mr M would've asked for a £30 per month plan and whilst this would've likely been accepted to pay off his debt, he would've needed to find an additional £137 to avoid a default.

Unfortunately, I can't see that Mr M had the disposable income at the time and, even if he decided to repropotion his other debt or Lloyds gave him an extra couple of months, soon after the first payment he had to take unpaid leave for a month due to his mental health. So, I don't think he would've been able to sustain high payments.

I'm sorry to disappoint Mr M but I think it more likely than not that the default wouldn't have been stopped even if Lloyds spoke to him after his August salary payment. So, it wouldn't be fair or reasonable for me to ask Lloyds to reverse the default and recall the debt. Also, whilst I recognise the difficulties it has caused him and Lloyds' poor communications, I don't think it would be fair to require Lloyds to pay him compensation for detriment experienced as a result of the default.

When considering a fair and reasonable amount of compensation here, I don't think £20 is a fair and reasonable amount. This is because I think:

- Lloyds' communication was unclear, and they should've tried to manage Mr M's expectations on 18 July 2023, explaining that a debt repayment plan would be for high amounts. If they had he would've likely realised on that call that it was unlikely he could avoid a default.*
- Considering the above bullet point, together with Lloyds having information that Mr M might still be in a vulnerable position, they should've tried to contact him before going ahead with the default.*
- Mr M experienced confusion, upset, distress and annoyance when he discovered his account had been defaulted and his debt sold off. If Lloyds' communications had been better (as described above) and if they tried and managed to speak to Mr M it's possible the confusion and upset could've*

been avoided and the distress and annoyance (over the default) could've lessened. Also, Mr M may have possibly taken a different course of action with the debt collection agency.

Considering all the difficult circumstances in this case, including that Lloyds didn't have an address for Mr M, Mr M wasn't able to call them, and it might not have been possible for Lloyds to get to speak to him, I think a fair and reasonable amount of compensation here is £150.

My provisional decision

My revised provisional decision is to uphold this complaint against Lloyds Bank PLC, and I require them to:

- *Pay Mr M £150 compensation*

I'll look at anything else anyone wants to give me – so long as I get it before 16 July 2025.

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 would like to thank both Mr M and Lloyds for responding to my above second provisional decision.

In his latest submission, Mr M said that reversing the default was the fair and appropriate remedy and requested that I reconsider this. He added the following comments:

- *'When you looked at what might have happened in August 2023, you noted that Lloyds would have expected payments of around £167 a month to avoid default—an amount far beyond my means at the time. I was homeless, unpaid until late August, and doing everything I could just to survive day to day. Requiring unsustainable payments made default inevitable, which underlines why reversing that default and offering a reasonable repayment window is the only just outcome.'*
- *'FCA guidance (CONC 2.10, 6.5) obliges firms to take extra care with customers in crisis. Lloyds had clear warning of my circumstances but made no meaningful follow-up. Restoring my account and recalling the debt would go some way to repairing the harm to my wellbeing.'*
- *'The mixed messages I received on 18 July—being told "we'll hold your account" and "your wellbeing matters"—were supportive in tone but misleading in substance. As you said, the adviser gave the impression there was no immediate threat of default. That confusion directly contributed to my delay in re-engaging, which shows why the default itself was unfair.'*

Mr M evidenced how the default and subsequent CCJ is still impacting his ability to secure housing. He also explained the impact on his mental health and said:

- *Reversing the default is the only way to begin repairing that damage'.*
- *If the debt was recalled he was committed to repaying the balance in full within the next 12 months.*

Lloyds said they were in agreement with my second provisional decision.

With Mr M's latest submission in mind, I considered everything again.

I should first say that although I'm very sorry to hear about Mr M's ongoing distress and mental health difficulties and understand the outcome he is seeking; I must approach this matter objectively.

Although I think Lloyds should've tried to contact him before processing the default, in his submission Mr M further confirms that he unfortunately couldn't afford to repay the amount he owed Lloyds. Lloyds had been giving Mr M support, due to his vulnerability, for some time and the terms of the account meant they were entitled to be repaid for the amount they lent him within a reasonable amount of time.

So, whilst I understand Mr M's extremely difficult circumstances and agree that some of Lloyds' communications on the 18 July 2023 were poor, even if Lloyds had spoken to Mr M in August 2023 or soon after, his account would've still defaulted. This is because Mr M didn't have the funds to repay them. Also, later in 2023 he had to take unpaid leave due to his mental health difficulties.

Furthermore, although I recognise Mr M's vulnerability, I'm satisfied Lloyds had been giving Mr M support but due to the size and age of the debt this couldn't be for an indefinite period and they would've required repayment in a short period of time.

The Information Commissioners Office (ICO) provides guidance on timescales for when an account should be recorded as in default, this is when it is between three to six months in arrears. At the point Lloyds defaulted Mr M's account, it had been in arrears for a significantly longer period (since December 2022). So, I don't think Lloyds acted unfairly or unreasonably in relation to defaulting the account.

In addition, had Lloyds delayed taking such action on an account that was highly likely to default the six year period (negative information remaining on his credit file for six years) would've been delayed resulting in a worse outcome for Mr M.

Furthermore, a credit file should be an accurate reflection of how an account has been managed, and in this case, I'm satisfied that the default is an accurate reflection of how Mr M managed the account during the period of time in question.

So, although I empathise with Mr M's situation, I don't think it would be fair or reasonable for me to ask Lloyds to reverse the default and recall the debt.

Also, whilst I understand the impact of the default and subsequent CCJ, as I think the default would've still occurred, I don't think it would be fair to require Lloyds to pay compensation for the detriment experienced as a result of the default or CCJ.

I again considered what a fair and reasonable amount of compensation should be for the communication deficiencies I've highlighted in my two provisional decisions. I recognise the confusion, upset, distress and annoyance caused to Mr M. However, when considering all the difficult circumstances in this case, including that Lloyds didn't have an address for Mr M, Mr M wasn't able to call them, and it might not have been possible for Lloyds to get to speak to him, I still think a fair and reasonable amount of compensation here is £150.

I'm sorry to disappoint Mr M, but having considered everything again, my final decision is to partially uphold this complaint and to require Lloyds to pay Mr M £150 for their communication deficiencies.

My final decision

My final decision is to partially uphold this complaint against Lloyds Bank PLC, and I require them to pay Mr M £150 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 August 2025.

Paul Douglas
Ombudsman