

The complaint

Miss H has complained about the way Lloyds Bank PLC administered a loan agreement.

What happened

The circumstances of the complaint are well known to the parties so I'm not going to go over everything again in detail. But, to summarise, Miss H entered into a loan agreement with Lloyds in January 2019. The loan was for £11,000 and Miss H was due to pay it back over five years. The loan fell into arrears in 2023. Lloyds said the arrears were around £640 and the total outstanding balance was around £2,500.

Lloyds wrote to Miss H in July 2023 to say "*I can confirm that your loan was written-off on 06 June 2023.*". Miss H said this was because of financial hardship.

Miss H referred a complaint to the Financial Ombudsman in February 2025 to say the debt had previously been passed to a debt recovery company that I'll call "C". She said C continued to pursue her for the debt causing distress. Miss H said she'd contacted Lloyds in January 2025, but it hadn't resolved things for her.

Lloyds sent a final response to say it had written to Miss H in March 2023 to let her know the loan hadn't been settled and that it was valid and repayable.

The Financial Ombudsman let Lloyds know more about what Miss H had said, and it responded to say the team that wrote to Miss H in July 2023 had no authority to take action. Lloyds said the person responding to Miss H used terms it uses internally (write off and charge off) when a loan is moved to recoveries. Lloyds said it should not have told Miss H the loan was 'written-off' because it was a debt that is owed and it wasn't given an appropriate reason to cancel it. But Lloyds acknowledged the letter would've led to a loss of expectation for Miss H and that it would have caused some confusion. Lloyds offered Miss H £500 compensation to say sorry.

Our investigator thought Lloyds' offer was fair. Miss H didn't agree. She said she'd acted in good faith relying on the letter. She said Lloyds had told her the letter didn't exist. She said Lloyds should honour the contents of the letter and that the situation caused significant distress and inconvenience. She thought Lloyds had broken several rules and regulations, and thought compensation of around £2,000 would be more appropriate. She also wanted costs incurred refunded, her credit file corrected, and a formal acknowledgement of mishandling including an apology.

Miss H also let us know C had written to her to say it had decided to close the account as a gesture of goodwill, but the default would remain unless instructed otherwise by Lloyds.

As things weren't resolved, the complaint has been passed to me to decide.

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 want to acknowledge I've summarised the events of the complaint. I don't intend any discourtesy by this – it just reflects the informal nature of our service. I'm required to decide matters quickly and with minimum formality. But I want to assure Miss H and Lloyds that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.

I first want to say I'm sorry to hear Miss H felt misled and let down when Lloyds didn't listen to her. She's said the situation impacted her mental health. I can't imagine how she must've felt, but I thank her for taking the time to bring her complaint.

Miss H is complaining about how Lloyds administered her loan agreement and our service is able to deal with complaints about these sorts of agreements.

I've often seen lenders refer to 'writing off' and 'charging off' debts, particularly in internal communications, when they decide to pass the debt to a debt collection agency. So I can understand Lloyds' point that, technically, this is what happened when it 'wrote off' the debt from its own books and passed it to a debt collection agency because of the arrears that had built up.

But on the other hand, in everyday language, I can understand how a customer might easily be led to believe the debt had been ended or cancelled if they receive communication saying it had been 'written-off'. And this could be even more believable if they'd been in discussions with the business, or if the business was aware they were in some sort of financial difficulties.

In Miss H's case, Lloyds has accepted it shouldn't have used that sort of terminology in the letter it sent her. I agree with what it's said here. The question I need to decide is whether Lloyds has done enough to put things right.

I agree with Miss H that the impact wasn't simply that the letter led to a loss of expectation. She also didn't feel listened to by Lloyds. Given it didn't acknowledge the letter until after our involvement and after it issued its final response letter, I can understand why Miss H felt let down. And I think the situation was compounded for Miss H because she was in financial difficulties and her mental health was impacted.

Lloyds has agreed to offer £500 compensation and it's said sorry. There's information on our website about awards for distress and inconvenience. The amount that's been offered is in line with what is recommended where the impact of a mistake has caused considerable distress, upset and worry. And it's recognised Miss H has been put to a lot of extra effort to sort things out. No amount of money is going to change what's happened. But I'm satisfied the overall award that's been offered adequately recognises the impact Lloyds' handling has had on her. I'm not going to direct it to pay more compensation.

I've also thought about whether Lloyds needs to take any other action. Where a business makes a mistake in offering something, it's not always appropriate to direct it to honour the mistake. I think the compensation I've referred to above is a fair way for it to say sorry. It's already apologised and I'm not going to direct it to say sorry again. I'm conscious it looks like C has agreed to close the account and stop pursuing Miss H for the debt as well, so I do need to take that into account. And given it looks like the debt built up arrears due to non-payment before the issue I don't find I have the grounds to direct Lloyds to remove adverse information that was already recorded, where it's not been shown that recording wasn't fair or accurate. Finally, with regards to how C treated Miss H, I'm conscious C is a separate company from Lloyds. If Miss H is unhappy with how C treated her, she'd need to take it up with C in the first instance. If she's unhappy with how it responds it might be something we can consider for her.

Overall, I'm sorry to hear about the impact on Miss H. I think Lloyds has done enough to put things right, so I'm not going to direct it to do more.

My final decision

Lloyds Bank PLC has offered Miss H £500 compensation. I think this is fair in all the circumstances, so my decision is that Lloyds Bank PLC should, to the extent not done so already, pay Miss H £500.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 16 February 2026.

Simon Wingfield
Ombudsman