

The complaint

Mr B has complained that Lloyds Bank PLC unfairly defaulted his overdrawn account, and recorded this with the credit reference agencies.

What happened

Mr B had a student account with Lloyds, and in May 2021 it notified him that it would be transitioning to a graduate account on 30 July 2021. It then contacted him again on 19 January 2022, to say that no credits were being made to the account, and he'd need to make a payment towards the overdraft within 27 days, or the facility would be removed. It has provided evidence that this email was read. It then contacted Mr B again on 17 February 2022 and 22 March 2022, asking for payment.

Lloyds then contacted Mr B on 27 April 2022, as it hadn't heard from him, and said it was removing the overdraft facility, and that his credit file could be affected. Because the overdraft facility had been removed, the full balance became payable. Lloyds continued to contact Mr B on a number of occasions, requiring repayment and explaining his credit file could be affected.

Ultimately, Lloyds issued a formal demand for payment on 23 June 2022, explaining what would happen if the balance wasn't paid. This was followed by a final letter dated 29 July 2022, confirming the account was to be closed and what the impact of that would be on Mr B's credit file. The account was then closed and defaulted in September 2022.

Mr B has since repaid the balance and the account has been marked as settled.

One of our investigators looked into what had happened. Although she could see Mr B was frustrated, as he says he could have repaid the outstanding balance, she was satisfied that Lloyds had given him multiple opportunities to do so, and explained what would happen if he didn't.

Mr B disagreed. In summary, he said:

- no default notice was served, as Lloyds' system notes, which he has seen, do not contain the code 'DRF', which is the code for a default notice. The only significant entry is 'formal demand' dated 23 June 2022, logged as "LTR_PRT SENT ?" - which itself indicates uncertainty whether it was ever sent;
- he was entitled to his overdraft and had stayed within the agreed limit;
- a default was disproportionate, as guidance says it's appropriate where a relationship has 'broken down';
- he had no intention of avoiding repayment, as when he became aware of the debt, he repaid it in a matter of weeks; and
- Lloyds used unreliable contact methods - communications were limited to in-app

messages, generic “you have a message” emails, and letters sent to his old address. No phone call was attempted, even though Lloyds confirmed they do call customers in “exceptional circumstances.” A six-year default on a credit file surely qualifies.

The complaint’s now been passed 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, I’m not upholding it. I’ll explain why.

First, an overdraft is a loan, which is repayable on demand. It’s also not intended for constant use. There’s no entitlement to it, as such. Rather, it may be used while the business is happy to offer it. Here, it was not being paid back. And a financial business is required to ensure affordability – and this includes being able to pay off an overdraft in a reasonable amount of time.

I’m aware that Mr B says he could have paid off the overdraft. But, I’m satisfied that Lloyds contacted him multiple times, but he didn’t make any payments, or contact Lloyds. I’m satisfied this correspondence was sent to the address Lloyds held on file for Mr B – and it was his responsibility to update this. I know Mr B has questioned whether the demand or default notice were sent, but I’ve seen copies of them. So, on balance, I’m satisfied they were. Otherwise, I can see no reason for their existence.

Lloyds also sent messages, and I can see at least one was read. So, even if the above hadn’t been sent (although I think they were), this, along with the large amount of other correspondence, would have reasonably made Mr B aware he had to take action.

I’m satisfied that Lloyds used multiple methods to contact Mr B – using the details he’d provided, that it held on file. It was entitled to consider these to be reliable. And given the multiple methods used, I see no reason why a phone call would also have been required. I think Lloyds communicated fairly and appropriately.

Lloyds contacted Mr B multiple times, without response. And no payments were being made into the account. Although our service wouldn’t necessarily require a relationship to have broken down for a default to be recorded (as we decide things, ultimately, on a fair and reasonable basis, taking into account the law and industry guidance)), I think it’s fair to say that these things are indicative of a broken relationship.

For these reasons, I think the default was recorded fairly.

My final decision

For the reasons given above, it’s my final decision not to uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 17 February 2026.

Elspeth Wood
Ombudsman