

## The complaint

Mr L complains Lloyds Bank PLC unfairly handled his overdraft and incorrectly recorded adverse information on his credit file.

## What happened

Mr L held a Lloyds account which was in its overdraft. Mr L reached out to a debt management support service – who I will refer to as S and applied for breathing space on 20 September 2023. Mr L also applied for a debt management plan but then decided against entering into this. On 13 October 2023 the plan with S ended. S told Mr L it had informed his creditors, and his accounts remained functional as normal.

As it had been informed Mr L was in a debt management plan Lloyds stopped charging Mr L interest on his overdraft and began the account closure process. Mr L raised his concerns with Lloyds about the actions it was taking as he had stopped the debt management plan with S. Mr L said Lloyds hadn't handled his account correctly or explained matters to him clearly. In particular Mr L said the overdraft was removed overnight without warning, and he had been caused significant inconvenience.

In its final response letter dated 7 February 2024 Lloyds reviewed the concerns Mr L had raised. It explained it had received contact from S letting it know Mr L needed support in repaying his overdraft balance. Lloyds reviewed the account and began the account closure process – this included removing the overdraft limit. Mr L contacted it on 30 November 2023 explaining the plan was no longer in place. However, Lloyds said this didn't stop the closure process that it had begun as this decision was made following its own review of the account.

Lloyds sent a closure letter on 24 November 2023 and a formal demand letter on 23 January 2024. It explained that the account closure included removing the overdraft limit and although it apologised for not being clear about when this would happen it confirmed the overdraft was removed correctly and it wouldn't be reinstating it or the account. Lloyds also apologised for any service issues Mr L experienced when he contacted its Customer Financial Assistance team and confirmed that a repayment plan was put in place for two months.

Mr L remained unhappy with Lloyds' handling of his account and overdraft, and he referred his complaint to our service. In his referral Mr L focused on the impact Lloyds' actions had on his credit file. Mr L's case was reviewed by an Investigator who upheld the complaint. In summary they made the following findings:

- Lloyds told Mr L that the account closure flag would be removed, and the account would remain open. This didn't happen, and Mr L was informed the overdraft on his account was being removed and the account would close.
- Lloyds didn't cancel the closure of the account as it should've done. Mr L experienced distress and inconvenience as a result of this and had to attend branch and make many calls to Lloyds.
- Lloyds should compensate Mr L £200 and clear his credit file, which includes removing any debt management plan markers.

Mr L accepted these findings, but Lloyds disagreed and provided further evidence and submissions. The Investigator reviewed this and issued reviewed findings. In summary, these said:

- Their initial review upheld Mr L's complaint in part. However, Lloyds has provided further evidence. This confirmed the account was only briefly closed between 23 January 2024 and 30 January 2024.
- When Lloyds was informed that Mr L was entering into a debt management plan it has a specific process in place. This involves providing breathing space on the account and freezing all interest and charges. A key part of the process is issuing a notice to close letter, which is why Lloyds sent one to Mr L.
- Lloyds removed the overdraft facility fairly – it conducted a review of the account following its notification Mr L was in a debt management plan. Although this later changed, Lloyds' decision at the time to remove the facility was in keeping with its duties to lend responsibly.
- Mr L informed Lloyds he would clear his overdraft – however, the funds he received in were transferred out. Mr L's account remained open so he could clear his overdraft.
- Lloyds explained it could only change its records to reflect that Mr L was no longer in a debt management plan once it received confirmation from S. This wasn't received, so Lloyds acted fairly in not updating its records for Mr L's account.
- Lloyds' evidence shows that no adverse information was recorded against Mr L's credit file between November 2023 and March 2024.
- However, the information Lloyds provided about the status of his account was unclear and insistent. The communication should've been better, and Lloyds should pay £200 in distress and inconvenience to reflect the impact of this shortcoming.

Lloyds disagreed with the reviewed findings, and explained it had provided the right support to Mr L and explained the status of his account clearly. It provided further information on its process for accounts that are in a debt management plan and reiterated its position that no further compensation was needed as Mr L's account had no interest or charges applied to it once Lloyds was aware he was in a debt management plan.

Mr L responded and explained the evidence relied on was inaccurate and Lloyds has selectively pieced together information. Mr L maintained Lloyds had acted unfairly, and failed to provide clear information about his account. This has in turn led to adverse information being recorded against Mr L's credit file.

Following these responses, Mr L's case was passed to a different Investigator. They reviewed the complaint, and additional submissions made. In revised findings, the Investigator explained the following key points:

- Lloyds says it didn't receive notification from S that the debt management plan had ended. We contacted S directly and it hasn't been able to provide information as it only keeps records for three months.
- The overdraft on Mr L's account was reinstated the day after Mr L explained he wasn't in a debt management plan. Direct debits could then continue from the account.
- Mr L's credit file doesn't show entries between the relevant period – September 2023 to February 2024.
- Mr L was misinformed about the account closure being stopped, which led to Mr L's overdraft being removed and he was unable to make arrangements for his direct debits. Lloyds should pay Mr L £150 in recognition of this.

Mr L disagreed with the review, explaining that two late payment markers were applied to his credit file as a direct result of Lloyds' failure to communicate clearly as it relied on incorrect information. Mr L also said he attended branch to try and resolve the issue.

Lloyds responded explaining that it never informed Mr L he could keep his overdraft, and the facility would be removed due to the breathing space applied to the account. It also explained Mr L had informed it that he would repay the overdraft, but this didn't happen, and he utilised it again and then set up a repayment arrangement directly with Lloyds. Mr L had the overdraft for 18 months without any daily interest or charge being applied. The overdraft wasn't a facility it could continue to provide given Mr L's circumstances, and its duties to lend responsibly.

As both sides remained unhappy, the complaint has been referred to an ombudsman for a final decision.

### **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.

Firstly, I am sorry to see Mr L has had cause for complaint. I can see from the evidence provided that the account has been a source of stress and worry. I don't underestimate the concern this situation has caused, and also the worry of dealing with the complaint about it. Having looked at the complaint fully, my review of the evidence has led me to the same overall conclusions as the Investigator previously set out and for much the same reasons. I will explain why.

Once a business such as Lloyds is told, or it realises, that a customer is experiencing financial difficulties we would expect it to exercise forbearance and due consideration, in line with its regulatory obligations. In simple terms this means Lloyds should treat Mr L fairly and given him the appropriate support. I've thought about this overarching principle in light of the circumstances of Mr L's complaint.

Mr L had liaised with S directly in late 2023. The support he received, involved the decision to enter a debt management plan (DMP). There is no minimum level of debt required for a DMP, and it can be an effective tool in dealing with non-priority debts. S would've collected the relevant information from Mr L and then assisted him by informing creditors – in this case Lloyds – of the fact Mr L was in a DMP and what he would be able to repay going forward. In Mr L's case on 20 September 2023 S asked Lloyds to apply breathing space to his accounts.

It's not in dispute that Mr L was in a DMP and that Lloyds had been informed of this. Lloyds has set out in its submission the steps it takes once it is notified a customer is in a DMP. As highlighted above, Lloyds has responsibilities once it notes a customer may be experiencing financial difficulties. Once it received notification of the DMP Lloyds stopped charged interest and charges to Mr L's account, and on 24 November 2024 it informed Mr L the account would close in two months. Mr L says this is its normal process when an account is under a DMP, as it ensures the account is managed correctly and to ensure a customer's debt remains at a manageable level. I consider the steps Lloyds took at this stage to be reasonable, and in keeping with what I would expect a responsible lender to do given Mr L's circumstances.

Lloyds says that as part of its review of Mr L's account it was determined that the overdraft on the account wasn't affordable and would need to be removed given his DMP and the affordability issues it had identified. On 30 November Mr L contacted Lloyds to explain he

was in a better financial position and that he would be using funds to clear his overdraft. I understand Mr L contests saying this to Lloyds, but the notes I have seen suggest a discussion did take place at this time that implied the overdraft would be cleared. Although a transfer was made into Mr L's account, these funds were then moved out. Mr L says this was because another, more urgent debt, for his credit card needed to be cleared. I appreciate Mr L had other debts in place he needed to manage, but given the information Lloyds held, I think it was fair for it to expect the overdraft to be cleared.

A key point Mr L has raised is that Lloyds unfairly took away his overdraft. I think it's important to highlight that overdrafts are a discretionary credit facility and are repayable on demand. In Mr L's case a formal demand letter was issued on 23 January 2024 which requests payment be made into the account to clear the account or at least clear the unarranged overdraft amount. The overdraft was removed on 29 January 2024, but following contact from Mr L, it was reinstated and a repayment plan with Mr L was established. Lloyds has highlighted that the overdraft withdrawal was only temporary, and the evidence I've seen supports this. I appreciate this would've been a distressing experience for Mr L, but I am satisfied Lloyds took action swiftly to rectify the situation.

An overarching issue for Mr L is that Lloyds didn't act on the information provided by S. Mr L says S informed Lloyds that the DMP ended on 13 October 2023, and that none of the subsequent issues he had with his account would've occurred had Lloyds noted this on its systems for his account. Lloyds says it never received such notification from S, and S hasn't been able to provide evidence that it informed Lloyds the DMP ended. Mr L also says he attended branch and spoke to a member of staff about the DMP ending. I don't doubt Mr L's version of events, but I must consider them in light of what Lloyds' internal records show. These show that it was only in late November 2023 that Lloyds became aware that the DMP had ended.

Lloyds has also confirmed that the fact Mr L entered a DMP in the first instance meant it carried out a review of the account and assessed whether the overdraft was appropriate. I understand Mr L thinks the fact Lloyds' records weren't up to date led to the difficulties he later faced, but I think the fact Lloyds was on notice that Mr L needed support with his debt meant that the overdraft and account management would've changed, regardless of the fact the DMP ended shortly after it began.

Mr L has reiterated his concerns about his credit file. I am only able to comment on entries made by Lloyds that are relevant to the timeframe of this complaint. Having reviewed Mr L's credit file, I can't see that any adverse markers were applied by Lloyds when Mr L entered the DMP and during the period when the overdraft was removed. Once Mr L entered an arrangement to pay this was recorded on his credit file – but this doesn't appear to happen until much later, a significant period of time after the issues being considered here. Lloyds is obliged to provide accurate information to credit reference agencies about the status of accounts, and this includes any repayment plans and arrangements to pay. So I can't say Lloyds has acted unfairly with regards to the information it has recorded about Mr L and I don't think it would be fair to ask it to remove any information.

Mr L says Lloyds also unfairly closed his account following the contact from S about the DMP. It's generally for banks to decide whether or not they want to provide, or to continue to provide, banking facilities to any particular customer. At times, following a review, banks sometimes choose to end their relationship with customers. This can be due to a number of reasons and a bank isn't obliged to give a reason to the customer. Just the same as if Mr L decided to stop banking with Lloyds, they wouldn't have to explain why. In Mr L's case the review Lloyds carried out of his account in light of his DMP meant the normal process was for the account to close. However, Lloyds has confirmed the account didn't actually close and it remained open once Mr L had agreed an arrangement to repay.

Mr L says Lloyds shouldn't have said it would close the account, and this possibility added to his stress at a difficult time. Lloyds informed Mr L the account may close due to the on-going issues Mr L was facing in managing the account. The review was prompted by their overdraft usage. The overdraft is a credit facility which Lloyds is obligated to provide to customers in a responsible manner. This means it must ensure the credit is effectively managed and doesn't cause a customer detriment in the form of charges and interest. In Mr L's case interest and charges were suspended when breathing space was granted, and Lloyds has said the account would've closed once the overdraft had been cleared.

I must also highlight that the terms and conditions of Mr L's account allow Lloyds to close the account provided the necessary notice is provided. Lloyds explained the overdraft would need to be cleared, and that support could be provided, if necessary, but that this may have an impact on Mr L's credit file. I consider this approach to be fair and in keeping with its regulatory duties.

But this doesn't detract from the timeline of events and contact received by Mr L from Lloyds. I can see there have been multiple calls between Lloyds and Mr L, and he says the service he received was poor – and he wasn't given clear and consistent information. Lloyds says it provided fair service to Mr L and treated him with the relevant level of sympathy and forbearance.

I do think the events and information shared between Mr L and Lloyds was fragmented during this time. I think clearer communication from Lloyds surrounding the account closure issues and overdraft would've assisted Mr L in managing his account and overall expectations about next steps. This isn't to say I don't think Lloyds provided the right support – it has rightly highlighted that interest and charges were suspended on Mr L's account whilst it was in its overdraft, and it did keep the account open and ensure an arrangement to pay was established. However, I do think there were shortcomings in some of the information provided, and Mr L had to spend a significant amount of time pro-actively contacting Lloyds for clarification.

The Investigator recommended £150 for the service gaps identified, I consider this amount to be fair, and it is in keeping with our approach to compensation. Mr L says the compensation is inadequate given the impact Lloyds' actions had on them. Reaching an award for distress and inconvenience is seldom straightforward. The issues involved are subjective by their very nature and the impact on the consumer can be difficult to determine. Our awards are not intended to be punitive for businesses, and their fundamental aim is to recognise the impact on a consumer where there have been shortcomings. Having thought about the timeline of events, I think the compensation is reasonable – especially considering Mr L hasn't had any interest and charges applied to the account. So I don't find Lloyds' actions warrant further compensation as the evidence available shows it acted reasonably in the circumstances.

I'm sorry this isn't the outcome Mr L hoped for. I do hope my final decision provides some assurance that his concerns have been properly considered and sets out why I won't be directing Lloyds to do any more than pay Mr L £150 for the distress and inconvenience he experienced.

### **Putting things right**

Lloyds Bank PLC should pay Mr L £150 in recognition of the distress and inconvenience caused to him

**My final decision**

I uphold this complaint in part.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 8 January 2026.

Chandni Green  
**Ombudsman**