

## **The complaint**

Mr H complains Lloyds Bank PLC (Lloyds) unfairly closed his account and registered a default on his credit file.

Mr H also complains he was unable to access his account online due to a security error and is unhappy with the service he received from Lloyds.

To put things right, Mr H wants Lloyds to provide a clear explanation for the closure of his account, re-open his account and compensation for the damage done to his credit file, and for the distress and inconvenience he suffered.

## **What happened**

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

Mr H had a current account with Lloyds, which had an agreed overdraft of £490.

In summary, Mr H says:

- He was purposely living in his arranged overdraft. Lloyds would notify him of charge amounts for being in his arranged overdraft, they would contact him with the exact amount he had gone over into an unarranged overdraft, and he would put the relevant amount of money back in to cover the charges.
- Lloyds didn't make it clear to him that they had decided to close his account. And had Lloyds notified him he would have been able to put the right amount of money into his account in an instant to avoid his account being closed.
- Due to not being able to access his account online he wasn't able to access his account or put money into the account towards his overdraft.
- He received a text from Lloyds telling him to put money into his account, so he transferred money into it.
- He never received the letters Lloyds sent to him about his overdraft exceeding its limit. And someone must have stolen his mail.
- He wasn't aware his account had gone into an unarranged overdraft. And would have cleared this had he known.
- He asked Lloyds to send everything to him by email. But Lloyds used the wrong email address.
- He got a new mobile phone. As a result, Lloyds locked him out of his online banking. His app would not work, nor could he access his bank account online via a web browser.
- When he tried to access his account via the banking app, he saw a message that in order for him to access online banking again he would have to receive a code in the post. He was to enter this code into the phone when he received it and after this would be able to use his bank account again.
- He ended up in a perpetual cycle of requesting codes just for them not to turn up or when it did it would not work and would say it's void. He requested over 10 codes

over a time period of about a year. He only received 2 codes. Neither worked. During this time, he phoned Lloyds several times and complained but he was told the only way he could access his bank account again was to receive a code and there was nothing else he could do to gain access to his bank account. This is a major security error that he ended up being a victim of.

- He suffers from severe autism. And does not like public places unless it's for work. This is why he requested specifically for all contact from Lloyds to be via electronic communication. And needed access to his account online.
- Lloyds had always contacted him via text to let him know his account had gone into an unarranged overdraft and would let him know how much his fees were. (Usually a few pounds) which he always paid to bring himself back into his arranged overdraft.
- While being locked out of his bank account this stopped so he was completely unaware that Lloyds had continued charging him while being locked out of his account. Lloyds would not give him any information regarding his account over the phone during this time.
- Lloyds locked him out of his account for over a year, so he wasn't able to manage his account and repay what he owed.
- All Lloyds had to do was tell him to pay between £20 - £30 to clear his unarranged overdraft. And he would have done this. But Lloyds failed to tell him.
- He only found out he needed to repay his overdraft and that Lloyds had closed his account in July 2023 when he received a letter from Lloyds's debt collectors.
- It's unfair that Lloyds have recorded a default against him because it didn't give him clear information. And locked him out of his account. So, he couldn't manage his account.
- Lloyds didn't deal with his complaint well. Lloyds put another customer's bank account details and contact number on his complaint. Lloyds also didn't call him back as promised. And sent emails and their final response letter to the wrong email.

In response, Lloyds said it hadn't treated Mr H unfairly when they closed his account and asked him to repay his overdraft. Lloyds said it made it clear to Mr H that his account would be closed if he didn't repay his overdraft.

On 20 and 25 October 2022, Lloyds wrote to Mr H asking him to get in touch with them about his unarranged overdraft. The letter also told Mr H that the bank had stopped charging him interest on his arranged overdraft until it heard from Mr H.

On 29 October 2022 Lloyds wrote to Mr H to say that because Mr H had repaid his unarranged overdraft the interest rate on his arranged overdraft would be returning to normal.

On 24 December 2022, Lloyds wrote to Mr H again asking him to get in touch with them about his overdraft. And to make a payment to clear his unarranged overdraft of just over £16. But Mr H didn't get in touch.

Lloyds sent Mr H a final demand letter on 21 January 2023 telling Mr H that he needed to repay what he owed within 30 days. At the time Mr H owed £513.91. The letter also said that if Mr H couldn't repay the full overdraft amount he could make a payment of £23.91 to clear the unarranged overdraft amount. And get in touch to work out a repayment plan for the remaining amount.

The letter warned Mr H that failure to pay would result in a default being registered against him and information about him being reported to credit reference agencies that may impact his ability to obtain credit in the future. The letter also told Mr H that if he did nothing Lloyds

would close his account within two months.

Mr H didn't pay the outstanding debt or contact Lloyds. He made two payments of 20p on 10 and 27 February 2023. So, on 28 February 2023, Lloyds sent Mr H another letter asking him to get in touch about repaying his overdraft. The letter said Mr H needed to make a payment of £26.51 to clear his unarranged overdraft by 14 March 2023. And if Mr H didn't do so or get in touch with Lloyds, it would close his bank account in 30 days.

Mr H didn't get in touch so on 4 April 2023, Lloyds closed his account and passed Mr H's account to its debt collection team. Lloyds also registered a default against Mr H.

Mr H complained to Lloyds. After reviewing everything Lloyds said it had written to Mr H on several occasions asking him to get in touch about his overdraft and offering support to help if he was struggling to make repayments. But Mr H didn't get in touch or credit his account so Lloyds closed Mr H's account in line with the terms and conditions of the account.

Lloyds accepted it hadn't given Mr H the right support with his arranged overdraft. Having looked at Mr H's account in the months prior to his application on 20 July 2021, Lloyds said it should not have agreed the arranged overdraft limits Mr H had requested. As 2021 progressed, Lloyds said it could see Mr H was struggling to manage his account. And it should've contacted Mr H to see if the arranged overdraft was still suitable for him.

Lloyds apologised for not doing this and accepted this had contributed to the difficulties Mr H was facing. To put things right it paid Mr H £226.06 towards his overdraft. This was the total interest applied from 20 July 2021 to when the account was closed. And it back dated the default it had applied to 20 July 2021, which was the earliest date it would have closed Mr H's account.

Lloyds also paid Mr H £40.00 for the poor service he received when he called the bank to raise his complaint. Lloyds acknowledged that Mr H provided his up-to-date contact number, and whilst they weren't able to update this on his account record, due to the account being closed, the phone number should have been added to Mr H's complaint, so they could talk to Mr H, which led to delays dealing with Mr H's complaint.

Lloyds looked at what Mr H had said about the difficulties he said he had trying to access his account online. The bank said whilst it appreciated Mr H's frustration when Mr H changed his phone handset and number, the registration also changed for him to access online banking, which was done to protect Mr H's account.

Lloyds said that when Mr H contacted them they told him he could update his phone number in branch. But Mr H wasn't able to do this. So, it sent Mr H a one-time passcode to his address, which would have allowed Mr H to access his online banking so he could update his mobile number. The passcodes were sent out within 7 days and expired 30 days after issue. While waiting for his passcode, Mr H could complete any banking over the phone or in branch. Lloyds said it no longer had any record of when the passcodes were issued to Mr H.

Mr H remained unhappy and brought his complaint to our service. An investigator looked into Mr H's complaint and asked him and Lloyds for some more information. Mr H told the investigator that he never received the letters Lloyds sent to him. He said he only found out Lloyds had closed his account when debt collectors got in touch with him. He maintained that he had been locked out of account for around a year, and had he known he was in his unarranged overdraft he would have cleared what he owed to bring his account back into line.

Lloyds and Mr H couldn't provide any evidence of Mr H contacting Lloyds about not being

able to access his online banking. Due to the time that had passed Lloyds also couldn't provide any information about how many passcodes it had sent Mr H.

Mr H maintained that Lloyds should not have defaulted his account. And that the problem with his account had been created by Lloyds not sending him passcodes so that he could access his account. He said due to his Autism he couldn't attend a branch to service his account, so having online access to his account was very important to him.

The investigator said whilst they appreciated Mr H was having online banking issues, Mr H's account wasn't blocked and therefore, Mr H could've paid money in up until April 2023 when the account was closed. They noted that Mr H had paid in 20p on two occasions in February 2023, therefore they considered Mr H knew that the account was able to take credits.

The investigator reviewed everything and said that Lloyds had sent Mr H several letters including a final demand asking him to get in touch and repay his unarranged overdraft. The investigator said Mr H didn't get in touch, so Lloyds hadn't treated Mr H unfairly when it had closed his account and recorded a default. The investigator said that refunding Mr H the interest it had charged and back dating the default to July 2021 was fair. So, Lloyds had done enough to put things right regarding this aspect of Mr H's complaint.

The investigator also said Lloyds sent emails to the wrong email address. But Lloyds provided evidence that the emails were returned undelivered and they didn't contain any personal information. They said Lloyds had apologised which was a fair way to resolve this aspect of Mr H's complaint.

Mr H disagreed. He said if Lloyds had given him access to his account he would have been able to pay money into his account to clear his unarranged overdraft. He wants the default removed and compensation for the trouble and upset the matter has caused him.

As no agreement could be reached the matter came to me to decide. After reviewing everything I came to a different conclusion to the investigator and issued a provisional decision in which I said the following:

Firstly, I appreciate Mr H's openness with this service when explaining the challenges he has faced. I understand this has been a difficult time due to his health and personal circumstances. Mr H was vulnerable and experiencing financial difficulties at the time his account closed, and the default was registered against him. The FCA has issued varied and extensive guidance to businesses such as Lloyds on how it should treat customers who are in this position. I won't set out the exact requirements here – but there is a general expectation that Lloyds would treat Mr H sympathetically and provide him with service that met his specific needs and vulnerabilities.

Mr H's account showed signs of financial stress from late 2022 onwards. Mr H's overdraft remained unpaid for a significant period with Mr H making small payments of around £10 from mid-November 2022. Lloyds's system notes and letters show that it froze the interest on Mr H's overdraft balance. And asked him to get in touch with them to work out a repayment plan. At this stage I find Lloyds treated Mr H fairly and provided him with the necessary support to help clear his outstanding debt.

I can see that Mr H was successfully paying money into his account each month to keep within his agreed overdraft limit, but Mr H also went into an unarranged overdraft during 2022 on several occasions. And Lloyds wrote to him asking him to repay his unarranged overdraft.

In late February 2023 Mr H was again in an unarranged overdraft and Lloyds issued a

default notice via letter. Lloyds also decided to close Mr H's account and passed his account to their debt collections team.

Mr H says he never received any letters Lloyds sent him about his account. He said his mail was stolen. So, he had no idea that his account was in an unarranged overdraft. And it had been closed. Mr H hasn't provided me with any evidence that he contacted Royal mail to report he was having issues with his post. But I don't think this matters because as Lloyds now accepts it shouldn't have agreed to offer an overdraft to Mr H in the first place.

Mr H has said that he used online banking to monitor his account, and it was difficult for him to attend a branch due to his autism. He says had Lloyds made him aware he would have brought his account back within the limits of his overdraft. Mr H says at the time he'd bought a new mobile phone which needed to be registered for online banking, and he asked Lloyds to send him pass codes around 10 times, so that he could continue to access his account online using his new phone. But Lloyds only sent him two passcodes which didn't work.

It's unfortunate that neither Lloyds nor Mr H can provide any evidence of the passcodes being requested. But I can see Mr H had responded to text messages Lloyds previously sent to him – so in this instance, the fact he didn't receive the letters or passcodes meant he was unable to reach out to Lloyds or bring his account back within the agreed limits before the default was applied. Further, as soon as Mr H became aware of the default, he contacted Lloyds to query it. This shows Mr H was likely to engage with Lloyds if it had contacted him by other means to explain the potential impact of the missed payments. So, I consider Lloyds's decision to issue a default notice after Mr H missed his repayment – without any further attempts to contact Mr H to be unfair.

I must also highlight that the extensive regulatory guidance that Lloyds must consider when dealing with vulnerable customers who face financial challenges extends beyond any initial repayment plan. So, in Mr H's case Lloyds should've exercised forbearance and due consideration throughout its dealings with him – not just at the outset. Lloyds says Mr H had other options available for repayment that would've ensured payments weren't missed – such as attending a branch to make payments. However, due to his health issues, this wasn't an option for Mr H.

Looking at the information Lloyds's provided I don't think there can be any doubt that Lloyds was aware of Mr H's specific vulnerabilities and on-going need for assistance. So, I consider some attempt to contact him (other than via post) to query the missed payment to be a reasonable option, especially as in calls with Lloyds Mr H made it clear he wanted to avoid a default being registered against him. Mr H struggles due to his health, and this is something Lloyds ought to be mindful of in its dealings with him, especially when making significant decisions such as registering a default.

Having carefully considered everything provided, I am intending to find that Lloyds acted unfairly when it agreed Mr H's arranged overdraft limits in July 2021. It ought to have been clear that Mr H was in no position to sustainably repay what he owed within a reasonable period of time. I think that Mr H's overdraft usage should have prompted Lloyds to have realised that Mr H wasn't using his overdraft as intended and shouldn't have offered it to him. I am pleased to see that Lloyds now accepts this position.

Mr H ended up paying additional interest, fees and charges on his overdraft and this ended up exacerbating difficulties, he already appears to have had in trying to clear it. So, I think Lloyds didn't treat Mr H fairly and he lost out because of what Lloyds did wrong. And this means that it should put things right.

Lloyds have already paid Mr H £226.06 – which is the total interest applied to Mr H's overdraft balance from 20 July 2021 until his account was closed in April 2023. But I don't

think this goes far enough to put things right. I say this because as Lloyds now accepts it should not have provided Mr H the overdraft in the first place.

If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr H to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr H's credit file, it should reflect what would have been recorded had it not agreed the overdraft limit in July 2021. It follows that the application of the default marker and closure of the account was unreasonable. So, Lloyds should rework Mr H's credit file to reflect the arrangement rather than the default, if of course Mr H accepts this decision. I also think Lloyds should pay Mr H an additional £200 compensation for the trouble and upset this matter has caused him.

Finally, Lloyds accepts it initially failed to deal with Mr H's complaint in full and its communication fell short. Lloyds has paid Mr H £40 to apologise for the distress and inconvenience caused. In my view this fairly reflects the inconvenience caused. So, I won't be asking Lloyds to do anything more to resolve this aspect of Mr H's complaint.

In light of the above, I found Lloyd's handling of Mr H's account to be unfair. I upheld Mr H's complaint and said the account closure and application of the default marker were unreasonable, and Lloyds should put things right as set out below.

Lloyds Bank PLC should put things right as outlined below:

- Reopen Mr H's account (if Mr H wants an account with Lloyds)
- Engage with Mr H to set up an affordable repayment plan for the outstanding amount owed once the adjustments have been made.
- Remove any adverse information entered onto Mr H's credit file due to the missed repayments.
- Rework Mr H's credit file to reflect the repayment arrangement rather than the default.
- Pay Mr H £200 in recognition of the distress and inconvenience caused by Lloyds actions.

I then asked both parties to respond to me. The deadline for responses has now passed.

Mr H didn't respond despite the investigator trying to contact him. Lloyds initially responded and said:

- Given that Lloyds were not aware of Mr H's personal circumstances and had followed its internal processes correctly prior to closing the account, it would not consider offering compensation. However, if there is still an outstanding balance with the third-party agent (PRA Group) who bought Mr H's account from them, it would be willing to repurchase the account and arrange for the balance to be written off. This would mean Mr H would no longer have any outstanding amount to repay.
- Regarding Mr H's credit file, the default entry—backdated to 20 July 2021—was applied in accordance with their account closure process. As such, the default will remain on his credit file and is scheduled to expire in July 2027, in line with the standard six-year reporting period.
- It is not possible to reopen an account once it has been closed. Mr H is welcome to apply for a new account with Lloyds, subject to the usual application and eligibility criteria.

Following this Lloyds made a further submission and agreed to remove the default marker and write off Mr H's debt.

Now both sides have had an opportunity to comment I can go ahead and issue my 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.

I've considered all the evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

In response to the provisional decision, Lloyds has agreed to remove the default maker from Mr H's credit file and write off his debt. In the absence of any further evidence or information from Mr H I am satisfied that this is offer from Lloyds is fair and reasonable in all the circumstances of this complaint.

So, in conclusion I am satisfied that Lloyds handling of Mr H's account to be unfair and the application of the default marker against Mr H unreasonable. Lloyds should put things right as set out below.

### **My final decision**

For the reasons I've explained, my final decision is that I uphold this complaint. To put things right Lloyds Bank PLC should do the following:

- Remove any adverse information entered onto Mr H's credit file due to the missed repayments.
- Remove the default marker from Mr H's credit file
- Repurchase the defaulted account and arrange for the balance to be written off.
- Pay Mr H £200 in recognition of the distress and inconvenience caused by Lloyds actions.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 5 January 2026.

Sharon Kerrison  
**Ombudsman**