

The complaint

Mr A complains that Lloyds Bank PLC closed his bank accounts and requested the full overdraft repayment for a facility he felt he shouldn't have been offered. He says Lloyds prevented Mr A from setting up a payment plan, and defaulted his account, impacting his credit file.

What happened

Mr A had two accounts with Lloyds. A Club Lloyds account with a £400 overdraft, and a student account initially with a £500 overdraft that increased to £1,500.

In August 2024 Lloyds told Mr A that it would be closing his accounts with them and recommended he find accounts elsewhere. It provided Mr A with two months' notice on the account but also blocked the use of the account during the two months' notice period, although it would have allowed Mr A to access wages or benefits if he had any in the account.

At the time Mr A was made aware of the closure of the accounts, he was overdrawn by £1,499.67 on the student account. Lloyds explained Mr A would need to pay the balance of the overdraft. Mr A made multiple calls to Lloyds after receiving the notice to close to ask about making repayments to the balance. Mr A didn't make any payments towards the balance he says he's been provided with conflicting and incorrect information and was denied the chance to set up a payment plan. The account closed, and the overdraft balance was passed to Lloyds collections and recoveries teams and then onto a debt collection company. Mr A received missed payment markers then was told the balance had defaulted and he wasn't able to rectify the default.

During this time Mr A made a complaint to Lloyds on multiple occasions. In September 2024 Lloyds wrote its final response letter to Mr A to explain it had made the difficult decision to close the account. It explained it had given Mr A two months' notice to make alternative banking arrangements. It said that as Mr A owed money on the overdraft he should repay it via cash in branch, if it isn't paid off when the account is closed it will be passed to the customer finance assistance team and Mr A can discuss setting up a payment plan with them. It explained not paying off the overdraft may affect his credit file.

Unhappy with Lloyds response Mr A brought the complaint to our service. In addition to the points Mr A raised directly with Lloyds Mr A also explained he was unhappy with the way he was spoken to over the phone, and the options given to him to repay the balance were inconvenient. He told us he was unhappy that the final response didn't address the time on calls and stress trying to get the issue resolved. He also later questioned whether he should have been given the overdraft in the first place.

An investigator looked at the complaint and didn't uphold it. They explained that as the student overdraft was interest free, the checks completed before allowing the overdraft were reasonable and the lending was not irresponsible. And whilst Mr A was given an overdraft on the Club Lloyds account, he'd never incurred interest or charges and fully repaid any overdraft before the account was closed, so never incurred a loss in relation to this overdraft.

They explained Lloyds closed Mr A's account fairly and weren't obliged to provide Mr A with a reason for closing the account. And Lloyds had provided reasonable opportunity for Mr A to repay the overdraft balance before the account was closed, and the balance defaulted.

Mr A disagreed, he didn't think we'd addressed the default and the misleading and incorrect information he was told when he contacted Lloyds regarding making repayments to the balance. He also explained that we'd not listened to all the calls he'd made with Lloyds.

The investigator issued a response to Mr A's concerns, they said Lloyds had provided enough options for Mr A to repay the balance of the account and had done so in letters sent to Mr A. And that without further recordings of any additional calls he was unable to reach a finding that Lloyds were unhelpful and refused to help with repaying the balance. He'd explained that we'd requested copies of the call recordings from Lloyds, but it's provided systems screenshots that indicate it couldn't locate recordings of those calls. They also explained that Lloyds had made Mr A aware of the consequences of not paying the debt.

Following this Mr A completed a data request to Lloyds and was able to obtain additional call recordings and evidence. He's sent those to us. Our investigator listened to those call recordings but explained that they didn't change his findings on the complaint.

I then sent both parties my provisional decision in which I said I was planning on upholding this complaint in part. For ease of reference, here is what I said;

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

I'm aware I've summarised events of the complaint and in less detail than the parties and I've done so using my own words. No discourtesy is intended by me in taking this approach. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome. I do stress however that I've considered everything that Mr A and Lloyds has said before reaching my decision.

I would add too, that our rules allow us to receive evidence in confidence. We may treat evidence in confidence from banks for a number of reasons – for example, if it contains security information, or commercially sensitive information. Some information Lloyds has provided is information that we consider should be kept confidential.

Lending decision

Club Lloyds account

Mr A was never charged any interest or charges in association with the Club Lloyds overdraft. This was because he managed the account in a way which meant it was never in the overdraft for long enough to incur any fees or interest. I therefore don't need to make any finding on whether Lloyds original lending decision was fair. This is because even if I were to uphold that complaint, there would be nothing to redress, as there's been no negative consequences of Mr A being given the overdraft on this account.

Student account

Similarly, the student account overdraft didn't incur fees and charges, but unlike the Club Lloyds account, Mr A's student account closed with a balance owed to Lloyds. When that went unpaid, Mr A's credit file has been impacted, so there has been a negative impact of this overdraft facility being granted.

Before providing an overdraft facility to Mr A, Lloyds were required to carry out checks to ensure the lending was affordable to him. Lloyds has said for student accounts the amount of overdraft depends on the year of study. It's provided its eligibility criteria for the student account, and the amount of overdraft Mr A would have been entitled to. I haven't seen any evidence to suggest Mr A wasn't entitled to the account and the overdraft of £1,500 on the student account.

When Mr A applied for both the initial £500 overdraft and the increase to £1,500, he would not have had to pay interest or charges for some time provided he kept within the limits of his overdraft. I'm also mindful of Mr A's circumstances at the time of the overdraft applications and the fact he was in education. His account statements also would have shown his account was being regularly funded at the time of the overdraft increase. In the circumstances I don't agree this overdraft was unreasonably given to Mr A as it would've provided him with some breathing space and a better alternative to any other source of credit. So I don't find Lloyds to have done anything wrong in lending to Mr A.

Account closure

It's generally for banks and financial businesses to decide whether they want to provide or continue to provide banking facilities to any particular customer. Unless there's a very good reason to do so, this service won't usually say that a bank must keep a customer or require it to compensate a customer who has had their account closed.

That's because Lloyds is entitled to close an account with Mr A just as Mr A is entitled to close his account with Lloyds. But before Lloyds closes an account, it must do so in a way which is fair and complies with the terms and conditions of the account. I've looked at the terms and conditions, and they state Lloyds can end the agreement without notice in certain scenarios, or for any other reason, it must provide two months' notice in advance. In this instance Lloyds provided Mr A with two months' notice. However, during those two months Lloyds have restricted Mr A's banking facilities.

I've gone onto consider whether Lloyds' reason for closing the account was fair. Lloyds hasn't provided Mr A reasons for closing the account, and it's not obliged to. I don't think it's done anything wrong for not providing Mr A with a reason. But it has provided us with the reason and supporting evidence. This includes evidence and information that we've decided should be kept confidential. Having looked at all the information Lloyds considered as part of its investigation, I'm satisfied it was entitled to close the account providing Mr A with two months' notice.

Whilst it was fair for Lloyds to close the account providing two months' notice, Lloyds also placed blocks on the account during those two months. Having considered the evidence provided, and the reasons Lloyds has given me for the blocks, I'm not persuaded that it was fair to place blocks on the account during the closure period.

That being said, I can see Mr A had utilised his full overdraft balance on the student account and was generally only using the account to receive his student loan repayments and make transfers in and out from other accounts. Based on what I've seen of Mr A's account usage and that he appears to have other accounts available to him at the time, whilst I appreciate it would have been frustrating to Mr A to have his account blocked, I don't think there was a

significant impact on him.

Overdraft repayment and credit file impact

When Mr A was informed his account would be closed, he was also informed his overdraft would need to be repaid. In August and September 2024, Mr A was informed in writing that he would have to pay his overdraft. In the final response letter, he was informed that he can make payments via cash in branch, and if his overdraft isn't paid off when the account is closed, the complaint will be passed to the Customer Finance Assistance team, and he could discuss setting up a payment plan with them.

In August on a phone call with Lloyds, Mr A was told that he wasn't expected to pay the full overdraft at the time. If he wants to pay it now, he could go into branch to pay, but if it wasn't paid when the account closed, Lloyds collections team would contact him and make a repayment plan at this point. Mr A was told this won't impact his credit file if he keeps up with a payment plan.

In November Lloyds sent Mr A a letter from its collections centre explaining how much was owed and asking Mr A to make a payment as soon as possible. It explained Mr A could make a payment at his nearest branch or call the number at the top of the letter. This letter also explained that the bank may tell credit reference agencies about the overdrawn balance. This letter was followed up by another, that included a formal demand for payment. This set out the amount owed, methods of repayment, and again asked Mr A to make payment of the overdraft. It also said that if Mr A couldn't repay the full balance, please call so Mr A and Lloyds could work together to put a payment plan in place.

At the beginning of December Mr A called Lloyds and requested a payment plan be put in place. At the time he said he could not pay the full amount. During the phone calls in December, Lloyds explained that in the circumstances it could not put a payment plan in place for Mr A, and he would need to wait for the account to go to its collections team. Lloyds didn't provide Mr A a reason for this. Mr A has called following this to try to discuss a payment plan, but each time Lloyds hasn't engaged in a conversation with Mr A on setting up a payment plan.

Lloyds hasn't provided any reasonable justification as to why it wouldn't have attempted to set up a payment plan for Mr A. Based on what I've seen I think Lloyds ought to have discussed and explored this option further with Mr A, in December when Mr A asked for this to happen. So, I think Lloyds could've done more to help Mr A here.

Having said that, I have to consider what I think Lloyds could've done had it attempted to set up a payment plan with Mr A. Later, when Mr A was contacted by a debt collection company working on behalf of Lloyds, it went through Mr A's income and expenditure. It found that Mr A didn't have any surplus income to be able to make any payments towards the debt. Mr A said he was intending on finding more part time work which would increase his income. The debt collection company put the account on hold for three months to allow Mr A to find further part time work. Mr A has also told us that his income hasn't changed between when Lloyds closed the account, and when he provided this information to the debt collection company.

Had Lloyds engaged with Mr A earlier about setting up a repayment plan, it would've needed to speak to Mr A about his income and expenditure to be able to put in place something that was affordable for Mr A. I'm satisfied that had Lloyds undertaken this exercise as I've said it should have, it would have found that Mr A could not have afforded to set up a payment plan in December. So, whilst Lloyds should have done this, I'm satisfied that it would have resulted in Lloyds not being able to agree a payment plan, and Mr A's debt moving to Lloyds

recoveries team, and then the collection company.

Following Mr A's call in December, he started receiving missed payment markers on his credit file in relation to the unpaid overdraft and he was later told the debt had defaulted. But given I've said a payment plan would not have been able to be agreed, I'm satisfied that this would be an accurate reflection of the account.

Having listened to the phone calls and reviewed the letters Mr A has been sent, I'm satisfied that Mr A has been given information on how to make manual payments towards the account. I appreciate initially Mr A was only directed to pay in cash in branch, and why he would have considered this method as not ideal, but later and before any credit file markers were added Lloyds did provide further options to be able to make manual payments.

I've also listened to the calls Mr A has had with Lloyds and I don't agree that Lloyds were rude or unhelpful. Aside from not discussing setting up a payment plan with Mr A, I'm satisfied Lloyds have spoken to Mr A in a professional and informative manner.

Whilst I agree Lloyds didn't get everything correct here, I don't find that any mistakes Lloyds made had an impact on what the outcome was. I find it most likely that Mr A would still have been unable to pay the debt and this would still have led to missed payment markers and a default. Therefore, I won't be asking Lloyds to amend any information on Mr A's credit file.

However, I think Lloyds could have managed Mr A's expectations far better than it did and provided clearer explanation of its process to Mr A throughout. It's given Mr A the expectation that he would have been able to pay off his overdraft with a payment plan, and that he could do this without impacting his credit file. Mr A has called many times over a number of months to try and arrange this and never been given a clear explanation why this has not happened. I'm satisfied this has led to distress and inconvenience Mr A would not have had to endure had Lloyds been clear and consistent with him in its communication.

Putting things right

To put things right Lloyds should pay the following to recognise the impact Lloyds mistakes has had on the customer:

- *Pay Mr A £250 for the distress and inconvenience caused by the poor customer service provided.*

My provisional decision

I'm currently planning to partially uphold this complaint."

Lloyds responded accepting the outcome and agreeing to pay £250. Mr A made further submissions. Mr A has re-iterated points stating that Lloyds hadn't agreed a repayment plan with him and told him it wasn't possible. And the branch couldn't find details to pay in cash. He also says he was given no information on how to make manual payments and finds the assumption that he would be unable to make payments unfair. He says he had the funds, and even if he didn't he would've been able to source the funds.

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 accepted that Mr A wasn't given the chance to set up a payment plan, and this in part is

why I've made a compensation award. But I don't agree that he wasn't told he couldn't make manual payments, whilst I agree that some information was conflicting, in a call dated 4 December 2024 Mr A was told any amount he can afford to pay is fine, and at the start of this call he said he couldn't make a payment. In another call dated 8 February 2025 he was offered account number sort code and reference to be able to make manual payments. Mr A didn't make any payments.

Where information is missing, I must make assumptions based on what I think is most likely. I've based my assumptions on the evidence provided to me. In addition to what I've said above, in May 2025 Mr A went through his finances with a third-party debt collector and it was determined he couldn't make payments to the debt. I've asked Mr A if his finances were different at any time between the closure of the account and this call, and he's told me they were not. He's also told me the debt is still frozen and not being paid. On balance the evidence suggests that Mr A could not have paid the debt.

Whilst I do appreciate the frustration this matter will have caused Mr A, for the reasons I've giving above I have decided to uphold this complaint in part, and direct Lloyds to pay £250.

My final decision

I have decided to uphold this complaint in part for the reasons given above. I now direct Lloyds Bank Plc to pay Mr A £250 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 14 January 2026.

Simon Yates
Ombudsman