

## **Complaint**

Miss M has complained about the overdraft charges Lloyds Bank PLC (“Lloyds”) applied to her current account.

She said the overdraft she was provided with, which had the limit increased, was unaffordable for her and trapped her in a constant cycle of financial distress.

## **Background**

Miss M initially applied for an overdraft in June 2023. The limit fluctuated between being £100 at its lowest to £1,400.00 at its highest in July 2025.

Lloyds accepted that it shouldn’t have agreed to increase Miss M overdraft limit, in the way that it did, in April 2025. As a result, it agreed to refund all of the interest, fees and charges it added to Miss M’s account from then. Miss M remained dissatisfied and referred her complaint to our service.

One of our investigators reviewed what Miss M and Lloyds had told us. He wasn’t persuaded that Lloyds had acted unfairly by allowing Miss M to use her overdraft in a way that was unsustainable or otherwise harmful prior to April 2025. So the investigator thought that what Lloyds had already done to put things right was fair and reasonable and didn’t recommend that Miss M’s complaint be upheld.

Miss M disagreed with the investigator and asked for an ombudsman’s decision.

## **My findings**

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

Having carefully considered everything provided, I’m satisfied that what Lloyds has already done to put things right is fair and reasonable in all the circumstances and so I’m not upholding Miss M’s complaint. I’ll explain why in a little more detail.

*Did Lloyds act fairly and reasonably when providing Miss M with her overdrafts and increasing her credit limit prior to April 2025?*

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss M’s complaint.

Lloyds needed to make sure it didn’t lend irresponsibly. In practice, what this means is Lloyds needed to carry out proportionate checks to be able to understand whether Miss M could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less

thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

I understand that Lloyds agreed to Miss M's initial application after it obtained information on her income and carried out a credit search. And the information obtained indicated that Miss M would be able to make sufficient credits to clear the overdraft balance which could be owed at the respective times.

On the other hand, Miss M says that she shouldn't have been lent to or had her limit increased on the occasions that it was.

I've considered what the parties have said.

What's important to note is that Miss M was provided with a revolving credit facility rather than a loan. And this means that Lloyds was required to understand whether a limit of up to £700<sup>1</sup> could be repaid within a reasonable period of time, rather than all in one go. It's fair to say that an overdraft limit of up to £700 required relatively low monthly credits in order to clear the full amount that could be owed within a reasonable period of time.

I understand that Lloyds carried out credit checks on Miss M. I've considered the information that Lloyds has provided us together with the information Miss M has sent in to get an idea of what Lloyds is likely to have known about Miss M's existing credit at the respective times. Having considered the information provided, I've not seen any indication that Miss M had defaulted accounts or county court judgments ("CCJ") recorded against her, or that she had any short-term lending or high-cost borrowing at the time of any of the decisions to lend.

As Miss M was an existing Lloyds current account holder, I've looked at her statements in the period leading up to her applications. I think that it is fair to say that Miss M's account statements show that she was in receipt of sufficient funds each month in order to clear an overdraft of up to £700 within a reasonable period of time.

I fully accept it's possible that Miss M's position might have been worse than what it looks like on the information I've been provided with. I've also seen that Miss M has said that the number of limit increases she was granted, in itself, ought to have shown that she was experiencing difficulty. However, I suspect that that Lloyds had approved Miss M for an upper limit of £700 and it was content for Miss M to take this credit in increments as and when she saw fit.

Given the relatively modest total limit Lloyds approved, I don't agree that Miss M taking this in increments rather than all in one go means that Lloyds should have known this meant that it ought to have known Miss M was struggling at the time it was making its lending decisions. This is especially as the available information indicates that Miss M was in receipt of enough funds to repay what she could owe at the time the lending decisions were made.

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<sup>1</sup> Miss M's credit limit was increased to £1,400.00. However, Lloyds has already accepted that it shouldn't have increased Miss M's overdraft limit from April 2025. Prior to April 2025, the largest overdraft limit Miss M had been provided with was £700.

Bearing in mind all of this, I don't think that Lloyds acted unfairly or unreasonably when providing her with her overdraft or increasing her credit limit in the way that it did prior to April 2025. As this is the case, I'm not upholding this aspect of Miss M's complaint.

I'll now turn to considering whether Lloyds allowed Miss M to continue using her overdraft in circumstances where it ought reasonably to have realised that it had become unsustainable for her.

*Did Lloyds allow Miss M to continue using an overdraft it ought reasonably to have realised had become unsustainable for her?*

Before I go any further, as this essentially boils down to a complaint that Miss M was unfairly charged as a result of being allowed to continue using her overdraft, I want to be clear in saying that I haven't considered whether the various amounts Lloyds charged were fair and reasonable, or proportionate in comparison to the costs of the service provided. Ultimately, how much a bank charges for its services is a commercial decision. And it isn't something for me to get involved with.

That said, while I'm not looking at Lloyds' charging structure per se, it won't have acted fairly and reasonably towards Miss M if it applied this interest, fees and charges to Miss M's account in circumstances where it was aware, or it ought fairly and reasonably to have been aware that there was a clear reason it would have been unfair to do so.

I've therefore considered whether such a reason existed, prior to April 2025, which would have resulted in Lloyds charging Miss M unfairly.

Having looked through Miss M's statements, it's clear that she has been using her overdraft since it was granted to her. I'm therefore satisfied that there can be no dispute that Miss M was using her overdraft over the period of time she's had it. Miss M's arguments appear to suggest that this in itself means that her complaint should be upheld.

However, Miss M's overdraft was arranged and was an open-ended agreement credit agreement. This means that Miss M had an agreement to use her overdraft and as a result she was entitled to use it without having to reapply to do so. This is different from say short-term loans which she would have had to repay over a fixed period and then make a further application for additional loans if she wanted further funds.

That said, I do accept that the rules, guidance and industry codes of practice all suggest that prolonged and repeated overdraft usage can sometimes be an indication of financial difficulty. However, it isn't always the case that prolonged and repeated overdraft usage by a customer will always mean that they are, as a matter of fact, in financial difficulty. Indeed, if that were automatically the case, there would be an outright prohibition on revolving credit accounts being open ended, rather than there being a requirement for a lender to review how the facility is being used.

I've therefore considered whether Lloyds acted fairly and reasonably towards Miss M, in this light.

In considering this matter, the first thing for me to say is that after the regulator amended its rules in December 2019, since late 2020 lenders have been required to write to customers explaining that using an overdraft can be expensive and that there may be more suitable alternatives for borrowing over the longer term. Lenders have effectively been required to encourage borrowers to use other means in these circumstances.

Furthermore, should a customer fail to take notice of these letters and continue using their overdraft in this way, the rules in place since then have permitted lenders to take corrective action, this is even where a customer might be using their account in accordance with the terms and conditions.

One such instance where a lender would be expected to act is where it was clear that the customer was experiencing financial difficulty. Nonetheless, it would need to be objectively clear to the lender, rather than a matter open to interpretation, that the overdraft charges were clearly making things worse and they were harmful as a result.

To begin with, I can't see Miss M notified Lloyds that she was struggling and that these charges were causing her difficulty, prior to making her complaint. If she had Lloyds would have known that the charges were causing harm and I would have expected it to act.

Nonetheless, even though I can't see that Miss M directly told Lloyds that she couldn't afford to pay these charges, I've considered whether her account activity ought to have alerted it to this being the case. In considering this matter, I'm mindful that in order to help with determining whether it is objectively the case that a customer was experiencing financial hardship, the regulator has (since April 2014) set out guidance on what it considers to be potential indicators of financial difficulty.

While this guidance came into force in April 2014, it effectively incorporated Section 9 of the British Bankers' Association's (of which Lloyds was a member of) Lending Code, which had already been in place for a number of years (including the period between 2011 and 2014). So I'm satisfied that the principle of this guidance, at the very least, is relevant to the entire period I'm looking at.

The '*Guidance on financial difficulties*' states that things such as a customer failing to meet consecutive payments to credit, being unable to meet their commitments out of their disposable income, having adverse credit or other insolvency information recorded against them, or being in a debt arrangement should be considered as potential signs of a customer being in financial difficulty.

However, having looked at Miss M's account transactions as well as the statements Miss M has provided, I've seen no indication that any of the potential signs of financial difficulty contained in the guidance, were obviously present in her circumstances during the entire period I've looked at. Furthermore, I can't see anything in Miss M's account transactions or statements which suggests that she was borrowing from payday or other high-cost lenders, which although not contained in the regulator's guidance, is generally accepted to be an indication that a borrower could be struggling too.

I've also looked at Miss M's incomings and outgoings as well as her overdrawn balances and determined whether it was possible for her to have stopped using her overdraft, based on this. I think that if Miss M was locked into paying charges in circumstances where there was no reasonable prospect of her exiting her overdraft then her facility would have been unsustainable for her, even where the indicators of financial difficulties I've set out above weren't clearly present in her circumstances, when looking at the account transactions.

In reviewing this matter, I've noted that throughout the period of time I'm looking at, Miss M's account was in receipt of credits that were sufficient to clear the overdraft within a reasonable period of time. Indeed, as Miss M's salary was greater than her overdraft limit, I'm satisfied that Miss M's case isn't one where a borrower was permanently in their overdraft. It is clear that there were times where Miss M returned to a credit balance. The fact that Miss M was receiving regular credits into her account is another reason why her overdraft doesn't appear to have been obviously unsustainable for her.

Furthermore, while I'm not seeking to make retrospective value judgements over Miss M expenditure, there are significant amounts of non-committed, non-contractual and discretionary transactions going from Miss M's account. Indeed, there was significant discretionary spend and Miss M also appears to have been transferring funds to and from another account of hers at times.

I accept that Miss M did have other credit commitments at this time. But this in itself does not mean that she was reliant on credit to meet her essential expenditure. And it isn't immediately obvious to me that Miss M was borrowing from unsustainable sources – such as payday type lenders – in order to pay for the charges, or meet other committed expenditure either.

Of course, I accept neither of these things in themselves (or when taken together) mean that Miss M wasn't experiencing difficulty. But I don't think that Miss M's account conduct and overdraft usage obviously show that she was. And bearing in mind I'm satisfied that it is more likely than not that Miss M did not directly tell Lloyds that she was experiencing financial difficulty, that's what I'd need to be persuaded of in order to uphold her complaint.

Looking from the outside, throughout the period of time I've looked at, Miss M had sufficient funds to be able to reduce the amount that she used her overdraft. Indeed, by reducing her limit on a number of occasions she was doing this. In these circumstances, Lloyds was reasonably entitled to conclude that Miss M was choosing to use her overdraft rather than it being the case that she had become reliant on it.

Therefore, I don't think that Miss M was obviously locked into using her overdraft and paying the charges for doing so. In my view, there was a reasonable prospect of Miss M exiting her overdraft. And, prior to April 2025, Lloyds was reasonably entitled to believe that Miss M was choosing to use her overdraft in the way that she was, rather than a case that her financial circumstances meant that she had no choice other than to do so.

Overall and having considered everything, I don't think that it was unreasonable for Lloyds to have proceeded adding the charges that it did. This is particularly bearing in mind the consequences of Lloyds taking corrective action, in the way that it would have done, would have been disproportionate.

I say this because I don't think that it would have been proportionate for Lloyds to demand that Miss M immediately repay her overdraft, in circumstances where there was a realistic prospect of Miss M clearing what she owed in a reasonable period of time. This is especially as the next step would have been to default the account after this.

I'm therefore satisfied that prior to April 2025 Lloyds did not charge Miss M in circumstances where it ought to have realised that it was unfair to do so.

In reaching my conclusions, I've also considered whether the lending relationship between Lloyds and Miss M might have been unfair to Miss M under s140A of the Consumer Credit Act 1974 ("CCA").

However, I'm satisfied that what Lloyds has already done to put things right for Miss M's overdraft complaint as a whole, is fair and reasonable in all the circumstances of this case and I'm not requiring it to do anything further. I'm also not persuaded that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome in respect of this.

Overall and having considered everything, while I can understand Miss M's sentiments and

appreciate why she is unhappy, I'm nonetheless satisfied that what Lloyds has already done to put things right for her is fair and reasonable and I'm not upholding this complaint. I appreciate this will be very disappointing for Miss M. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

### **My final decision**

For the reasons I've explained, I'm satisfied that what Lloyds Bank PLC has already done to put things right is fair and reasonable in all of the circumstances. So I'm not upholding Miss M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 5 May 2026.

Jeshen Narayanan  
**Ombudsman**