

Complaint

Mr and Mrs C has complained that Lloyds Bank PLC (“Lloyds”) unfairly continued applying increasing amounts of charges to their overdraft when they were in difficulty.

Background

One of our adjudicators looked at this complaint and thought that Lloyds should have realised that Mr and Mrs C’s overdraft had become unsustainable for them in March 2013 and so it needed to refund all the interest, fees and charges it added to Mr and Mrs C’s overdraft from this point. Lloyds didn’t agree in full and as Mr and Mrs C didn’t accept Lloyds’ alternative offer of settlement the case was passed to an ombudsman for review.

My findings

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

Lloyds will be familiar with all the rules, regulations and good industry practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don’t consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I also think Lloyds acted unfairly when it continued charging overdraft interest and associated fees after it renewed Mr and Mrs C’s overdraft in March 2013. By this point, it ought to have been clear that Mr and Mrs C were in no position to sustainably repay what they owed within a reasonable period of time.

Mr and Mrs C’s statements leading up to the renewal shows they hadn’t really had a credit balance on their account for a prolonged period. Indeed, they’d had regular returned payments and had also exceeded their limit. In these circumstances, it ought to have been apparent Mr and Mrs C were unlikely to be able to repay what they owed within a reasonable period with overdraft interest, fees and associated charges continuously being added.

In reaching this conclusion, I’ve thought about the payments Lloyds has referred to. But this was a £10,000.00 overdraft facility. And despite what Lloyds has referred to it isn’t in dispute Mr and Mrs C struggled to see a credit balance, had returned payments and exceeded their limit. Lloyds also appears to accept it took five years after Mr and Mrs C’s income dropped for it to offer them any kind of assistance. Finally, I’ve also seen Lloyds’ reference to funds from a guarantor loan provider. But I don’t think funds from a high-cost credit provider going into Mr and Mrs C’s account are indication that they were in a strong financial position, or that an overdraft of £10,000.00 remained sustainable.

So having carefully thought about everything, I think that Lloyds should have stopped providing the overdraft on the same terms in March 2013, stopped adding fees and charges and instead treated Mr and Mrs C with forbearance. All of this means that Lloyds should have realised Mr and Mrs C was experiencing financial difficulty, weren’t using their overdraft as intended and shouldn’t have continued offering it on the same terms. As Lloyds didn’t react to Mr and Mrs C’s overdraft usage and instead continued charging in the same way, I think it failed to act fairly and reasonably.

Mr and Mrs C ended up paying additional interest, fees and charges on their overdraft and this ended up exacerbating their financial difficulty. So I think that Mr and Mrs C lost out because of what Lloyds did wrong and that it should put things right.

Fair compensation – what Lloyds needs to do to put things right for Mr and Mrs C.

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Mr and Mrs C's complaint for Lloyds to put things right by:

- Reworking Mr and Mrs C's current overdraft balance so that all interest, fees and charges applied to it from March 2013 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Lloyds should contact Mr and Mrs C to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr and Mrs C's credit file, it should backdate this to March 2013.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr and Mrs C along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Lloyds should remove any adverse information from Mr and Mrs C's credit file.

† HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr and Mrs C a certificate showing how much tax it has taken off if they ask for one.

My final decision

For the reasons I've explained, upholding Mr and Mrs C's complaint. Lloyds Bank PLC should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs C to accept or reject my decision before 2 July 2021.

Jeshen Narayanan
Ombudsman