

The complaint

Miss G complains that Lloyds Bank PLC (“Lloyds”) failed to notice that she was in financial difficulty or treat her with forbearance in relation to her overdraft.

What happened

Miss G holds an account with Lloyds which has an agreed overdraft facility. The account was a student account between 2018 and 2020. During this time, the overdraft limit was gradually increased from £500 to £1,500 and was interest-free. In July 2020 it became a graduate account. The overdraft limit was increased to £2,000 in October 2020. This was interest-free until July 2021, when the interest-free element was reduced to £1,500, although the overdraft limit remained the same. In August 2023, the account ceased to be a graduate account; it became a Classic bank account with no interest-free element to the overdraft. Lloyds carried out reviews of the overdraft in June each year.

Earlier this year, Miss G complained to Lloyds that her overdraft was unaffordable. She said she was in financial difficulty and that Lloyds should have noticed this during its annual reviews. She said that, by 2021, she had been in the overdraft constantly for many months and her income was barely enough to put her back in credit. She said she wasn’t in a position to clear the overdraft in a reasonable length of time. She said that Lloyds should have noticed when her overdraft usage got worse and should have known she was in financial difficulty because of information on her credit file.

Miss G said that Lloyds should have shown forbearance by stopping the interest and charges which it was applying to her account. She said that the interest made her financial situation worse, and her mental health suffered as a result. She asked Lloyds to refund all the interest and charges which had been applied to her account from 2021 and remove any adverse entries from her credit file.

Lloyds didn’t uphold the complaint. It said it had used information provided by Miss G, data from the credit reference agencies and information it already knew about Miss G to make its lending decisions. It said it had looked at her monthly income and living expenses as well as the minimum repayments on her existing borrowing. It hadn’t checked Miss G’s bank statements because it said it was up to her to make sure everything on her application was correct. It said that she had passed its checks, so it approved the lending. It thought its decisions to renew the lending were reasonable. It thought the overdraft was manageable and could be paid off within a reasonable time if Miss G reduced her non-essential spending.

Miss G wasn’t happy with Lloyds’ response and brought the complaint to this service. Around that time, she entered into a debt management plan through which she is making monthly payments to Lloyds. No interest has been applied to her account since the end of February. Lloyds has decided to close Miss G’s account and gave her notice of this at the end of May.

Our Investigator recommended that Lloyds refund all interest and charges from 13 June 2023 onwards. Lloyds agreed to this. But Miss G thought that interest and charges should be refunded from June 2022. She asked for the complaint to be reviewed by an Ombudsman.

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.

Miss G says she was struggling financially from 2021 and that Lloyds should have noticed this. Her account was a graduate account at this time and the whole of her overdraft was interest-free when Lloyds carried out its annual review. I don't think Miss G's regular use of her overdraft at this point was necessarily a sign of financial difficulty. She was making use of interest-free borrowing, which Lloyds says it expects its graduate customers to do as it understands that they may not be working. I think that's reasonable. I don't think Lloyds had cause to think Miss G was in financial difficulty at this stage.

Shortly afterwards, the interest-free element of the overdraft was reduced to £1,500. This was in line with Lloyds' usual approach where a graduate account is transitioned to a standard account by gradually reducing the interest-free element of the overdraft. Miss G remained within her overdraft limit but exceeded the interest-free limit in August 2021, so she first began to pay interest at that point. Lloyds says it expects customers to be continuing to use their overdraft at this stage as it understands they may be seeking work but not actually working. I think that's reasonable.

By the time of the annual review in 2022, Miss G was still using the overdraft regularly, often exceeding the interest-free amount but always within the limit. The account was still a graduate account, so a large part of the overdraft was still interest-free at this point. Lloyds thought the overdraft could be cleared in a reasonable time if Miss G reduced her non-essential spending. I think that was a reasonable conclusion. I don't think there was anything in Miss G's account usage or credit file to suggest she was experiencing financial difficulty at this time. The fact that someone is regularly using an overdraft doesn't in itself indicate financial difficulty. And she hadn't raised any concerns with Lloyds at this stage. So, I don't think Lloyds could have known that Miss G was struggling.

By the time of the next review, in 2023, Miss G was still using the overdraft regularly. By this stage, the interest-free element of the overdraft had been reduced again, in line with the terms and conditions of the graduate account. But Miss G's usage of the overdraft hadn't reduced and her income remained the same. She stayed within the overdraft limit but was regularly close to the limit and several Direct Debits had been returned. The account was still a graduate account at the time of the review but this was about to end as it was converted to a Classic account just two months later. There was no indication that Miss G's overdraft usage was tapering off or that she was using it as a short-term safety net.

Miss G hadn't raised any concerns with Lloyds at this point. But I think that Lloyds should have picked up on these factors at the 2023 review. I think there was enough information by this point to suggest that Miss G could have been struggling. So, I think Lloyds should have acted differently at this point. I don't think it was reasonable simply to let the situation carry on and continue charging interest. Miss G's situation didn't improve after this and she entered into a debt management plan earlier this year.

Putting things right

Taking everything into account, I think the fair outcome to this complaint is for Lloyds to refund the interest and charges which it applied to Miss G's account from 13 June 2023. If this leaves an outstanding balance, Lloyds should work with Miss G to arrange repayment of the debt and backdate any default to 13 June 2023. If refunding the interest and charges

clears the balance, then any additional funds should be treated as overpayments and refunded to Miss G with interest at 8%.

My final decision

For the reasons above, I uphold this complaint. Lloyds Bank PLC should:

- rework Miss G's account to remove all of the interest, fees and charges applied from 13 June 2023 onwards;

AND

- if reworking the account in this way results in an outstanding balance, Lloyds should backdate any default or adverse entries on Miss G's credit file to 13 June 2023;

OR

- if the effect of reworking the account is that there is no longer an outstanding balance, any additional funds should be treated as overpayments and refunded to Miss G together with simple interest at 8% a year on the overpayments from the date they were made (if they were) until the date of settlement *. If there is no longer an outstanding balance once the account has been reworked, Lloyds should remove any adverse information from Miss G's credit file.

* If Lloyds Bank PLC considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss G how much it's taken off. It should also give Miss G a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 1 August 2024.

Katy Kidd
Ombudsman