

The complaint

Mr S is unhappy that Lloyds Bank PLC defaulted his Bounce Back Loan and with the service he received from Lloyds surrounding this.

What happened

Mr S held several accounts with Lloyds, including a Bounce Back Loan (“BBL”). In July 2023, Lloyds defaulted Mr S’s BBL because of unpaid arrears present on the loan. Mr S wasn’t happy about this, and he also wasn’t happy that Lloyds defaulted the other accounts he held with them at the same time. So, he raised a complaint.

Lloyds responded to Mr S but didn’t feel that they’d acted unreasonably in how they’d administered Mr S’s accounts. Mr S wasn’t satisfied with Lloyds’ response, so he referred his complaint to this service.

One of our investigators looked at this complaint. But they didn’t feel that Lloyds had acted unfairly in how they’d managed the situation and so didn’t uphold the complaint. Mr S remained dissatisfied, so the matter was escalated to an ombudsman for a 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.

Mr S has said that he only ever missed one payment on the BBL, and he doesn’t feel that it’s fair that Lloyds would have defaulted his loan because of only one missed payment. However, I’ve reviewed Mr S’s BBL statements, and it’s evident from these that Mr S didn’t make the BBL payments that were due on his BBL in December 2022 and March 2023.

Mr S has also said that Lloyds never made him aware of his BBL arrears. But Lloyds have provided their contact notes with Mr S to this service, and these notes describe a conversation that took place with Mr S in April 2023, before his payment for that month was due on his BBL and while his loan was two months in arrears as detailed above.

During this conversation, Mr S explained why he had fallen into arrears on his BBL and promised to maintain his monthly payments moving forwards, beginning with the upcoming April 2023 payment. And Mr S also agreed to make a payment to clear the two BBL payments that he’d missed before the May 2023 BBL payment became due.

But following this conversation, Mr S didn’t make the April 2023 payment that was scheduled on his BBL, meaning that his loan fell three months into arrears. And Mr S also didn’t make the arrears payment to recover the position of his loan before the May 2023 BBL payment was due – as he’d promised Lloyds that he would.

This meant that in June 2023, Mr S was three months in arrears on his BBL with the first of those arrears dating back over six months. And because of this, it doesn’t seem unreasonable to me that Lloyds would issue a formal demand to Mr S demanding full

repayment of his BBL as they did in June 2023.

Mr S has said that he didn't receive this formal demand. But I'm satisfied that Lloyds sent it, and that it was addressed correctly to Mr S. And I wouldn't consider Lloyds accountable for the non-delivery of correctly addressed mail, given that the delivery of mail is undertaken by a postal service over which Lloyds have no direct control.

Additionally, I'm satisfied from the conversation that Mr S had with Lloyds in April 2023, as described above, that Mr S was aware of the arrears that were outstanding on his BBL. And if Mr S wasn't aware of the arrears that were present on his BBL, then I feel that he reasonably should have been, given that it's the responsibility of a loan account holder to understand the position of their account and maintain that account appropriately.

Ultimately, Mr S didn't meet the contractual payment obligations on his BBL and allowed the BBL to remain in a position of arrears for several months. And because of this, I don't feel that it was unreasonable or unfair for Lloyds to issue the formal demand to Mr S that they did, and to then move to default the loan when Mr S didn't contact them to resolve the situation before the deadline given in the formal demand for him to do so.

Mr S is also unhappy that when Lloyds defaulted his BBL, they also moved to default the other accounts he held with them, including accounts which weren't in arrears.

In defaulting Mr S's other accounts as they did, Lloyds were engaging in a process known as 'cross-defaulting'. This is a process whereby when one account of a customer's is defaulted, all other accounts of that customer's are also defaulted, regardless of the position of those other accounts.

Such cross-defaulting is a common practice in banking and financial services and is undertaken because the account provider – in this case, Lloyds – no longer has faith in their customer's ability to maintain their accounts and is no longer willing to provide banking services of any kind to that customer.

Lloyds right to cross-default is stipulated in their general terms and conditions, which Mr S agreed to and accepted when entering a banking relationship with them. Specifically, it's stipulated within the section that details when Lloyds can terminate an agreement and close an account, which includes the following:

"[If] we reasonably believe you cannot pay your debts (to us or any other person)..."

In this instance, Mr S had defaulted on his BBL because he hadn't met his contractual payment obligations on that loan. And because of this, I feel that it was reasonable for Lloyds to believe that Mr S might not be able to meet his other payment obligations to them, such that the above clause came into effect.

Additionally, the formal demand that Lloyds issued to Mr S included the following:

"It's important you get in touch within the next 14 days. We need to let you know that if we don't hear from you, our next steps could include:

- *Stopping your banking services and closing your account(s)..."*

In this instance, when Mr S didn't contact Lloyds within 14 days of the formal demand, Lloyds did stop his banking services and close his accounts, as they'd said they might do.

All of which means that I don't feel that Lloyds have acted unfairly towards Mr S as Mr S

contends here. This is because Mr S was in arrears on his BBL and wasn't engaging with Lloyds about those arrears such that I'm satisfied that it wasn't unfair for Lloyds to default his BBL. And because I feel that Lloyds were within their rights to cross-default Mr S's other accounts when they defaulted his BBL.

I realise this won't be the outcome Mr S was wanting, but it follows that I won't be upholding this complaint or instructing Lloyds to take any further or alternative action. I hope that Mr S will understand, given what I've explained, why I've made the final decision that I have.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 1 October 2024.

Paul Cooper
Ombudsman