

The complaint

Miss K is complaining about Lloyds Bank PLC after it returned a direct debit payment on her account because it took the balance beyond her arranged overdraft limit. She thought she'd set up a plan that meant the payment would be honoured and she'd be able to repay the additional amount over the following month.

What happened

Miss K had a Lloyds current account with an arranged overdraft limit of £500. At the start of 25 March this year, the account had an overdrawn balance of £500.03. Shop Direct Group tried to collect a direct debit for £146.58 on that day. There were other transactions on the same day, including some money paid in by Miss K, but this direct debit meant the account balance exceeded the overdraft limit. It was returned unpaid on the same day and the account balance at the end of the day was £497.13 overdrawn.

While this was going on, Miss K applied online for a repayment plan to clear her unarranged overdraft. This was confirmed by Lloyds in a letter dated 26 March that gave her one month to pay off.

Our investigator didn't recommend the complaint be upheld. In short, he felt Lloyds had acted in line with the account terms and conditions when declining the direct debit. He also didn't feel that Lloyds had misled Miss K into believing the payment would be honoured.

Miss K didn't accept the investigator's assessment. From her telephone conversation with our investigator, I understand she was able to resolve the situation with Shop Direct. But she feels the information she received from Lloyds implied the direct debit was being paid and was therefore misleading. She thinks Lloyds need to update its online process to ensure other customers aren't misled in the same way.

The complaint has now been referred to me for review.

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.

Having done so, I've reached the same overall conclusions as the investigator, and for broadly the same reasons. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

I think it's also relevant to explain that the Financial Ombudsman Service is not the industry regulator. That means we don't write the rules for financial businesses or have powers to fine or punish businesses where these aren't followed or require them to change their policies and procedures. This is the role of the Financial Conduct Authority (FCA). Our role is

instead to consider individual disputes and reach what we believe is a fair and reasonable conclusion in the specific circumstances of each case.

Lloyds has provided a copy of the account terms and conditions, which say under section D14 that:

If you don't have enough money in your account (or available arranged overdraft) shortly after midnight to make a payment, you have until 2.30pm to pay money into your account to make the payment that day. If you don't have enough money in your account (or available arranged overdraft) your payment may still be taken. This may mean that your account goes into an unarranged overdraft.

After reviewing the account statements for the relevant day, it's clear that at no point during the day was there sufficient money to cover the Shop Direct payment. The account conditions do still allow for payments to be taken where there isn't sufficient money in an account, thereby establishing an unarranged overdraft. But it's my understanding this only applies to payments the bank is required to make, an example could be a guaranteed payment via VISA that can't be returned unpaid.

So, on the basis that there wasn't sufficient money in the account to keep it within the arranged overdraft limit, I'm satisfied Lloyds was entitled to return the direct debit payment.

From her comments to our investigator, it's clear Miss K was aware of this situation at the time and tried to ensure the payment was made. But this could only have been achieved by either depositing enough money into her account to cover it or by arranging to extend her agreed overdraft limit. I've reviewed the terms of the agreement she arranged online, as outlined in Lloyds' letter of 26 March, but this relates to the repayment of an unarranged overdraft. There's nothing within it that I believe states (or otherwise implies) that Lloyds was extending her arranged overdraft limit or otherwise agreeing to honour any particular payment.

I understand Miss K believes the information she saw on screen was unclear on this point, but I've not been provided with any evidence to demonstrate this.

On balance, while it's unfortunate Miss K appears to have misunderstood the process, I'm satisfied Lloyds acted within the account terms and conditions in returning the direct debit payment. I've no doubt the circumstances described resulted in some inconvenience for Miss K, but I don't think the evidence shows Lloyds was at fault in this instance and I was pleased to hear she was able to resolve things with Shop Direct.

It's for these reasons that I'm not upholding this complaint. I realise this outcome will be disappointing for Miss K, but I'm satisfied it's fair and reasonable in the circumstances.

My final decision

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 7 August 2024.

James Biles
Ombudsman