

The complaint

Mr D complains that Lloyds Bank PLC was irresponsible in its lending to him.

Mr D is represented by a third party but for ease of reference I have referred to Mr D throughout this decision.

What happened

Mr D was provided with a £200 overdraft by Lloyds in November 2019. The overdraft amount was changed on several occasions up to November 2020 with the highest limit of £1,100 being applied in July 2020 before it reduced to £1,000 in November 2020. Mr D says that Lloyds failed to take into account his reliance on the overdraft and that had adequate monitoring taken place it would have been aware that he had remained in his overdraft for a prolonged period of time and was using it to pay for essential outgoings.

Lloyds issued a final response to Mr D's complaint dated 10 January 2024. It said it reviewed Mr D's overdraft account and found he had managed this well over the previous years. It said that each time it renewed his overdraft it found no concerns with how the account was being handled.

Mr D wasn't satisfied with Lloyds' response and referred his complaint to this service.

Our investigator upheld this complaint. She thought that Lloyds should have realised in April 2020 that Mr D wasn't using the overdraft for its intended purpose. She recommended that Mr D's account be reworked so that any additional interest, fees and charges resulting from the overdraft limit increases from 11 April 2020 were removed.

Lloyds didn't agree with our investigator's view. It said the Mr D stayed within the arranged overdraft and cleared it on multiple occasions. It noted that the money paid into Mr D's account was high compared to his essential bills and he could have reduced or repaid the overdraft noting that Mr D had a high amount of discretionary spend. It said it had acted in line with the rules regarding repeat overdraft usage and supported Mr D when he contacted it about his financial difficulties.

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.

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 considered everything provided, I agree with our investigator that Lloyds should have realised in April 2020 that Mr D wasn't using his overdraft for short-term or emergency borrowing and therefore shouldn't have continued increasing his overdraft limit. I have set out my reasons for my conclusions below.

Mr D was provided with an overdraft on his account in November 2019. In the months leading up to this, Mr D was receiving payments into his account and his account wasn't showing signs that he was in financial difficulty. So, I do not find I can say that Lloyds was wrong to provide the initial £200 overdraft limit. The limit was increased to £400 within the same month but I do not find at this time Lloyds was wrong to provide this.

I can see that Mr D applied for further overdraft limit increases in December 2019 and January 2020 but these were declined. However, in April 2020, an increase to £450 was agreed. Before agreeing this increase I think that Lloyds should have reviewed Mr D's account to ensure he was using his overdraft for its intended purpose of short term or emergency borrowing and that the overdraft was sustainably affordable for him.

Looking at Mr D's account statement for the months leading up to the April 2020 increase, these show that he was heavily reliant on his overdraft facility. In December 2019 and early January 2020, Mr D was receiving a weekly income which cleared his overdraft but only for a day or so. From mid-January 2020 until 11 April 2020, while there were payments made into Mr D's account these weren't regular and Mr D was no longer clearing his overdraft and he only spent an occasional day in credit. So, while I accept the increase in the overdraft limit on 11 April 2020 was relatively small, given Mr D was not using his overdraft for short term or emergency borrowing and instead it appeared to have become hardcore debt, I do not think that Lloyds should have considered increasing his overdraft at this time was reasonable.

Looking at Mr D's account for the following months showed that he remained in his overdraft. His overdraft increased as further limit increases were applied suggesting his was reliant on this and that the borrowing had become hardcore debt. I do not find that reviews of Mr D's account activity before the various increases to his overdraft limit between April and November 2020 would have suggested that his circumstances had changed such that any additional lending (beyond that in place prior to the 11 April 2020 increase) would be sustainably affordable for him. Therefore, I am upholding this complaint from the overdraft limit increase on 11 April 2020.

I note Lloyds' comment about Mr D's non-essential spending but I have assessed how Mr D has used his overdraft facility. And having done so it is clear it wasn't being used for its intended purpose and Mr D wasn't clearing the overdraft and instead he remained in it for extended periods. Therefore I think Lloyds shouldn't have provided the additional lending it did from April 2020.

I accept that Lloyds sent Mr D letters about his repeat use of his overdraft. Based on the information provided the first of these was sent in October 2020. This suggests that Lloyds was concerned about Mr D's use of his overdraft at this time. I can see further letters were then sent. But, in this case I think that had Mr D's account usage been considered before the 11 April 2020 increase (and subsequent increases) Lloyds would have realised that his overdraft limit shouldn't have been increased further.

Putting things right

Lloyds Bank PLC should now settle Mr D's complaint as follows:

- Re-work Mr D's current overdraft balance so that any additional interest, fees and charges applied as a result of the overdraft limit increases from 11 April 2020 onwards are removed. This means that from 11 April 2020 onwards interest can only be charged on first £400 of any overdrawn balance.

AND

- If an outstanding balance remains once these adjustments have been made Lloyds should contact Mr D to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr D's credit file, it should backdate this to 11 April 2020.

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 D, 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 D's credit file.

*HM Revenue & Customs requires Lloyds to take off tax from this interest. Lloyds must give Mr D a certificate showing how much tax it's taken off if he asks for one.

I've also considered whether Lloyds acted unfairly or unreasonably in some other way given what Mr D has complained about, including whether its relationship with Mr D might have been unfair under s.140A Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr D in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My final decision is that Lloyds Bank PLC should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 12 September 2024.

Jane Archer
Ombudsman