

The complaint

Mr D complains Lloyds Bank PLC defaulted his loan.

What happened

Mr D's held an account with Lloyds for some considerable time. Mr D also held a loan with Lloyds. Mr D fell into financial difficulties during Covid lockdowns, and Lloyds agreed a Covid plan on his loan.

This plan was for the maximum allowable six months, and Mr D didn't need to make payments during this period. Interest continued to accrue, but arrears weren't built up.

The six-month plan ended in June 2021, but Mr D needed further help with his loan.

Mr D spoke to Lloyds, and it completed an income and expenditure, and it was clear Mr D couldn't make payments towards his loan. Lloyds agreed a further three-month plan, where Mr D didn't have to make payments to his loan.

Lloyds told Mr D his direct debit would remain active, and try to collect payments, so it advised Mr D to cancel the direct debit. And Lloyds told Mr D to call back, before the plan expired in September. Lloyds wrote to Mr D to confirm the plan and when it ended.

In this letter Lloyds said Mr D would be behind with payments to his loan.

Lloyds then wrote to Mr D in September 2021 to say his plan had ended and there were arrears due on the loan. In the letter, Lloyds asked Mr D to contact it.

Mr D didn't contact Lloyds, so it sent a further four letters, including a default notice, but Mr D still didn't contact Lloyds. Lloyds defaulted Mr D's loan on 10 November 2021.

Mr D complained to Lloyds about the default and felt Lloyds should have contacted him on the phone about his default. Mr D thought something as important as a default shouldn't be sent out by post, especially when post wasn't as regular as it once was.

Lloyds sent a final response to Mr D, saying it had written to Mr D several times, and posted these letters on his online banking. Lloyds said it hadn't made a mistake in defaulting the loan so it wouldn't remove the default.

Mr D referred his complaint to this service and an investigator looked into things. The investigator didn't think Mr D's complaint should be upheld as Lloyds had, in their opinion, done enough to warn Mr D his loan would default.

Mr D didn't agree, and said he thought Lloyds has acted too quickly in defaulting his loan. Mr D had a long-lasting relationship with Lloyds and felt it was unfair to say this relationship

had broken down to the extent of a default.

A second investigator picked up Mr D's complaint and assessed Mr D's complaint again. This investigator didn't think Mr D's complaint should be upheld either, and said they were satisfied Mr D had enough warning about the arrears in both a call and the letters.

The investigator felt Lloyds had followed the right process for a default, and didn't ask Lloyds to remove the default.

Mr D said he'd been experiencing some difficult personal circumstances at the time of the default. And Mr D said the impact of the default was disproportionate when considering his previous dealings with Lloyds.

Mr D felt a call, or a text, could have avoided the default, and Lloyds' interpretation of the rules around defaults was very narrow. Mr D asked for an ombudsman to decide things.

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 D has sent in lots of submissions for his complaint, including referencing the Standards of Lending Practice, The Information Commissioner's Office (ICO) Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies.

And Mr D has sent in several letters to outline his concerns at the way he's been treated by Lloyds. I don't intend to answer all Mr D's points, as an informal service I can decide a complaint on what's fair and reasonable in all the circumstances of the complaint.

But I'd like to assure Mr D I've carefully read all his submissions and the associated guidance, as well as other guidance, rules and regulations around how businesses should deal with consumers in financial difficulties.

Mr D initially had a Covid plan for six months. This meant Mr D didn't need to make payments to his loan, and arrears didn't build up. Lloyds continued to charge interest, in line with this type of plan. But this plan didn't affect the later default of Mr D's loan.

When Mr D entered the three-month plan, he had a call with Lloyds. I've listened to this call, as did the investigator and Mr D's been sent a copy.

In this call Mr D runs through his income and expenditure, and it's clear he couldn't, at that time, make payments to his loan. Lloyds agrees to a plan where no payments are required for three months. This plan appears to be exactly what Mr D wanted.

I think Lloyds is clear, in the call, arrears will continue to build up whilst the plan is in place and a further plan will be needed at the end to reduce or pay off the arrears. And Lloyds is clear the new plan it agrees is different to Mr D's previous, Covid plan.

I also think Lloyds is clear that failure to pay the arrears building up through the plan, or agree a new plan, may mean the loan is closed and a default is applied.

Mr D takes a note of when the plan ends and when he needs to contact Lloyds. Mr D also agrees to cancel the direct debit, which it appears he did.

Mr D doesn't make any payments to the loan for the next three months, as agreed with Lloyds. But Mr D doesn't contact Lloyds when his plan ends.

Mr D has said Lloyds took his contact number as one of the first things during the call. Mr D feels Lloyds could have used that number to contact him about the plan ending and subsequent default.

In the call, Lloyds says it's taking the number for Mr D in case the line drops. I don't think there was any agreement to contact Mr D, going forward, by phone.

Because Mr D didn't contact Lloyds, it writes out to him. I've seen copies of the letters Lloyds sent Mr D and notes to show when these letters were sent. I'm satisfied Lloyds sent Mr D several letters once his three-month plan ended.

And I'm satisfied these letters were posted to the right address and added to Mr D's online banking. Mr D's sent this service copies of some of the letters he's seen online.

A default notice is required to be sent out, in writing, if an account is due to default. This requirement is laid out in the Consumer Credit Act 1974, sections 87 to 89. I think Lloyds had to send Mr D this notice by post.

And although I agree post isn't always a reliable method, it seems Mr D received some of the letters Lloyds sent. With these letters, and the online notifications, I think Lloyds gave Mr D sufficient notice he was in arrears on his loan, and it was due to default.

The ICO rules say an account may be defaulted when someone is three months in arrears and normally by the time someone's six months in arrears. Mr D was three months in arrears on his loan when his plan ended, payments had been missed in June, July and August.

Mr D was due to make payments in September and October but didn't. Lloyds defaulted Mr D's loan in November, when Mr D was five months in arrears. I don't think Lloyds defaulted Mr D too early, and I think the default was in line with the guidance.

And I don't think Lloyds took too narrow a view of the guidance. Mr D hadn't made any payments to his loan for five months and hadn't contacted Lloyds despite the letters it had sent out and posted online.

In the circumstances, I think Lloyds applied the guidance fairly.

I acknowledge Mr D's long relationship with Lloyds, and it must have been a stressful and upsetting time for Mr D. But, in the circumstances, I don't think this long relationship means Lloyds should have treated Mr D differently or given him more time to clear the arrears.

I think Lloyds provided appropriate support when Mr D explained he couldn't make payments to his loan. In the circumstances, I think Lloyds treated Mr D fairly by agreeing a three-month plan where he didn't need to make payments to his loan.

And I think Lloyds gave Mr D enough warning his plan had expired, arrears were present on the loan and a default was due to be applied, unless Mr D took action. Lloyds hadn't received any payments or contact from Mr D for five months, I think it reasonable for Lloyds to look to default the loan.

Mr D mentions his conversation with the complaint handler, prior to the final response being

sent. Mr D's loan had already defaulted. Mr D says Lloyds could, at this point, chosen to have reinstated the loan and remove the default.

Lloyds could have chosen to do this, and equally could have chosen not to. In the circumstances, Lloyds chose not to remove the default as it felt it had been applied correctly. I have to decide whether the decision not to remove was fair.

I realise a default will have a significant, and long-lasting effect on Mr D's credit file. Because of this, I'd like to assure Mr D I've thought very carefully about this effect whilst deciding what's fair in the individual circumstances of his complaint.

But, having done this, I don't think Lloyds has treated Mr D unfairly considering the individual circumstances of the complaint, so I won't be asking it to remove the default on Mr D's loan.

My final decision

My final decision is I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 10 August 2023.

Chris Russ
Ombudsman