

The complaint

Mr E complains that Lloyds Bank PLC (“Lloyds”) acted unfairly by defaulting his account and reporting it to the Credit Reference Agencies.

What happened

Mr E held a loan account with Lloyds. Under the terms of the loan agreement, he was required to make monthly repayments. Mr E missed a payment in January 2022. He contacted Lloyds at the beginning of February. Lloyds agreed to put a hold on the loan account for 30 days and stop charging him interest until his situation improved.

Mr E missed the February payment but resumed monthly payments from March 2022 onwards. However, the account was in arrears because the January and February payments remained outstanding. Lloyds wrote to Mr E several times about the arrears in the period from January to March 2022. It asked him to make a payment to bring the account up to date or get in touch. But the arrears remained outstanding and no payment plan was agreed. Lloyds sent Mr E a Default Notice at the end of March 2022. The Default Notice required him to pay off the arrears by 16 April 2022.

Mr E didn’t clear the arrears. But he maintained the monthly payments from March until November, when another payment was missed. Lloyds wrote to Mr E at the time and asked him to make a payment to bring the account up to date or contact it to put a payment plan in place. It says it didn’t hear from Mr E, so it sent him a final demand at the end of November. Lloyds says it didn’t hear anything from Mr E in response, so it defaulted the loan account and passed it to the Recoveries department in December.

Mr E complained to Lloyds in January. He said he had received a number of arrears notices and had tried to contact Lloyds each time to explain his situation. He says this hadn’t been successful because of Lloyds’ phone system. He said that his income was sufficient to meet the payments and that Lloyds should have looked at this and called him before taking steps which affected his credit file.

But Lloyds said that Mr E hadn’t responded to the Default Notice and hadn’t cleared the arrears. It said that he hadn’t responded to the final demand sent in November either. So it didn’t think it had done anything wrong by closing the account in December. Lloyds said it had followed the correct procedures and couldn’t remove the default or reinstate the loan. It confirmed that the account had been sold to another business and that Mr E should speak to them about repayment.

Mr E wasn’t happy with Lloyds’ response and brought the complaint to this service. He said that Lloyds had failed to administer the loan reasonably. He said its phone system was dysfunctional and that it was outdated for Lloyds to communicate by letter rather than email. He wanted Lloyds to acknowledge that it could have managed the situation better and asked it to intervene with the Credit Reference Agencies.

Our Investigator didn’t think Lloyds needed to do anything. But Mr E didn’t agree and asked for the complaint to be reviewed by an Ombudsman. He said that a key element of his

complaint is that he couldn't contact Lloyds by phone to discuss the situation because Lloyds' phone system is inadequate. He said that every time he tried to call, the waiting times were at least 30 minutes.

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.

It's not disputed that Lloyds sent a Default Notice to Mr E in March 2022. I think that was reasonable because he had missed two payments by that stage and there was no plan in place to address the arrears.

The Default Notice asked Mr E to pay off the arrears. It said that, if he didn't do so by 16 April, Lloyds could end his agreement. The notice listed the other steps which Lloyds could take if Mr E didn't clear the arrears. These included asking him to pay the full outstanding account balance, registering a default with the Credit Reference Agencies, instructing a debt collection company and selling the debt. Some of this information had also been set out in previous letters from Lloyds. So, I'm satisfied that Lloyds made Mr E aware of the possible consequences of not clearing the arrears.

The letter accompanying the Default Notice said that, if Mr E couldn't pay off the arrears in full, Lloyds could help to find a plan that worked for him. It asked him to call to talk through the options. I haven't seen any evidence of Mr E contacting Lloyds after the date of the Default Notice. The arrears remained outstanding, but Mr E resumed the monthly loan payments from March onwards. So Lloyds didn't default the account at that stage and I think that was reasonable.

I wouldn't necessarily expect a business to record a default as soon as one or two payments have been missed. But, where a customer is three months or more in arrears, I think it's reasonable for the bank to view it as a default. When Mr E missed the November payment, three months' payments became outstanding. So I think it was reasonable for Lloyds to look at defaulting the account at that point.

Mr E says that the contact he had from Lloyds around that time gave no indication that it was about to default his account. He has referred to an arrears notice and loan statement sent to him in December and January. These documents don't refer to default or the consequences of default. But two letters sent to the same address in November did specifically refer to default.

The first of the November letters asked Mr E to pay off the arrears or contact Lloyds to discuss the options. I haven't seen any evidence of Mr E contacting Lloyds after receiving this letter. Lloyds wrote to him again later that month. This letter was a final demand. It said that, if Lloyds didn't hear from Mr E within 14 days, it would end his loan agreement and ask him to repay the full loan amount. It also said that, if the account defaulted, Lloyds would have to report this to the Credit Reference Agencies. So, I find that Lloyds told Mr E that his account was about to be defaulted and gave him the opportunity to stop this.

I haven't seen any evidence that Mr E contacted Lloyds after receiving the final demand. And the arrears remained outstanding. So, I think it was reasonable for Lloyds to default the account. It did so in late December.

Mr E isn't happy that Lloyds sent him letters in the post, rather than communicating by email. Lloyds says it doesn't correspond with customers by email as it doesn't consider email to be secure. I think that's reasonable. And some of the letters which Lloyds sent here were

notices under the Consumer Credit Act 1974, so I'd expect Lloyds to send these by post. The purpose of these communications was to make Mr E aware of the status of his account. I'm satisfied that he received them and was aware that his account was in arrears.

If Mr E wished to discuss the situation with Lloyds, there were ways he could have done so. Lloyds' letters said that there were several ways he could get in touch: by phone, in a branch or through Internet Banking. I think those were reasonable communication options. The letters said that Mr E could use Internet Banking to find information about managing his account, fill out a budget and possibly set up a payment plan that way.

Mr E says he tried contacting Lloyds many times by phone and was unsuccessful. I understand from his comments that he encountered long wait times when he called Lloyds. He says the wait time was at least 30 minutes every time he called. I haven't seen evidence of any conversations which took place between Mr E and Lloyds after 12 March 2022. So my understanding is that, rather than wait, Mr E decided to end the calls and never got to the point of speaking to an agent. So, I don't think Lloyds could have known that Mr E was trying to get in touch. I think it's fair to say that it is frustrating having to wait for long periods on the phone. But, in the circumstances, I'd expect Mr E to have made the time as it was important that the situation with his account was addressed.

The account had been in arrears since January and wasn't defaulted until December. So I think Mr E had plenty of time to contact Lloyds before the default. I'd expect a customer in his position to have done so, even if it meant waiting for a while on the phone. Alternatively, he could have used Internet Banking or visited a branch, but I haven't seen any evidence that he did so.

Mr E says that Lloyds should have called him. He says it would have discovered that his financial position meant he could have resolved the issue. But in the circumstances here, I don't think Lloyds needed to call Mr E. It had given him enough information to make him aware of the situation with his account. If Mr E was able to make a payment to clear the arrears, I think it's reasonable to expect him to have done so. If not, Lloyds had given him options for getting in touch and time to do so. I don't think it's Lloyds' fault that Mr E didn't manage to make contact.

In conclusion, I don't think Lloyds acted unfairly here so I'm not going to ask it to do anything.

My final decision

For the reasons above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 30 October 2023.

Katy Kidd
Ombudsman