

The complaint

Mr G complains that Lloyds Bank PLC defaulted his loan account.

What happened

Mr G took out a £10,000 loan with Lloyds and set up a direct debit to repay it monthly. He had set the direct debit to be paid from a joint account he held with his wife who he had recently separated with. When she found out about the direct debit, she cancelled it. As a result, Mr G set up a new direct debit to come from a sole account in his name and made a manual payment in branch for the missed payment.

Every month from that point onwards, Lloyds sent Mr G a letter saying he had missed the monthly payments on his loan. When he checked with his bank, he realised that the direct debits had not been collected. He set up a new direct debit mandate in branch but did not make a manual payment to clear the arrears. A few months later, after receiving more missed payment letters, set up a third direct debit mandate for the loan.

During this time, Mr G received a notice of default, as he had accrued over £2,000 in arrears on the loan account. Further letters were sent to Mr G, but the arrears were not cleared, and the loan was defaulted and sent to recoveries in April 2022.

Mr G has said that as the direct debit failing was due to an error on Lloyds' part, he thinks that the direct debit should be set up again and the original loan terms be reinstated. He's said that the arrears should be paid off by increasing the monthly payments until the end of the loan term. In addition, his credit file should be amended, and the default should be removed.

Lloyds issued a final response in June 2022 in which they said that they should have given better service in relation to the direct debit issues Mr G faced. As a result, it paid him £100 compensation for any distress and inconvenience the issue had caused him. However, it felt that the loan account had been closed correctly in relation to the payment history of the loan and the lack of response from Mr G after January 2022, so they did not agree to re-open it. They said that they had frozen interest on the loan and the outstanding balance at that time was £8,792.17.

Mr G referred the complaint to our service. Our Investigator looked into it and asked Lloyds for more information about the direct debit issues. Lloyds responded and said that based on the evidence they had seen, it appeared Mr G had cancelled the direct debits himself each time.

Our Investigator felt that it was more likely Lloyds was not responsible for the direct debit cancellations, and that they acted appropriately and consistently to ensure Mr G was aware of the status of the direct debit and the arrears on the account. So, they did not agree that the complaint should be upheld.

Mr G disagreed with this. He explained that due to his medical issues, he does not use internet banking and did not go into a branch to cancel the direct debits. He maintained that

had Lloyds collected the direct debit, he would not have been in arrears.

As an informal agreement could not be reached, the complaint has been passed to me 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.

Having done so, while this will be disappointing to Mr G, I think that Lloyds closed and defaulted the loan account correctly and I do not instruct them to amend Mr G's credit file or reinstate the loan. I'll explain why in more detail.

Lloyds has said that Mr G cancelled the direct debits and has provided internal notes that suggest they were cancelled by the 'payer', who in this case is Mr G. He has said that he did not cancel the direct debits in branch, and there are no contact notes suggesting he did this.

The evidence does clearly state that the direct debits were cancelled by the payer, which does appear to be black and white. However, looking at the timing of when the direct debits were cancelled, this seems to roughly coincide with when payments failed to be taken from Mr G's account to pay the loan. So, there is some doubt in my mind as to whether the direct debit was automatically cancelled due to the payments failing. However, the evidence Lloyds has maintained that the direct debit was cancelled by Mr G and the evidence does seem to support this. While I do have some doubts as to how and why the direct debit was cancelled, I ultimately don't think this affects whether or not the loan account should have defaulted, though I appreciate Mr G does not agree with this.

While the direct debit being cancelled is what initially caused arrears to accrue, I do think that Lloyds clearly communicated the missed payments and accruing arrears to Mr G throughout the process. Lloyds sent Mr G letters after each missed payment, so they clearly informed him of the status of his loan account. And these letters clearly detailed the accruing arrears on the account. I note that Mr G made two manual payments to the account, so it was possible for him to also pay the arrears manually, however this was not done.

I can see that Lloyds sent Mr G notice that it would apply a default if he did not pay the arrears by the end of January 2022. Mr G contacted Lloyds in response to this letter and they applied a 30-day hold on the account. This is because Mr G confirmed he had the funds to clear the arrears, which at that point were just over £2,000, but he needed a little time before doing so. Mr G did make a manual payment in February 2022 of £431.78, which was the monthly contractual payment, but he did not clear the arrears. Lloyds sent Mr G a chaser letter in March 2022 as the 30-day hold had elapsed. However, as they received no response from Mr G and the arrears had not been cleared, the account was defaulted in April 2022.

Ultimately, I think there was a breakdown in communication. Based on what I've seen, I think Lloyds acted reasonably when it kept Mr G informed of the missed payments and arrears, and that they attempted to treat Mr G with forbearance when they applied 30-day holds on the loan account to help him pay the arrears. However, when the arrears continued to be unpaid, despite chaser letters and attempts made to assist Mr G, I think it was then reasonable that they closed the loan account and applied a default. So, I don't think they

need to take any action to remedy this.

I note that interest has been frozen on the loan account. Mr G should contact Lloyds to organise a suitable repayment plan for the outstanding debt. Lloyds has previously paid Mr G £100 compensation in relation to the issues he had with direct debits, though they have later suggested Mr G cancelled them himself. On balance, I think the level of compensation is fair in the circumstances and as I explained previously, it is unclear how the error has occurred with the direct debits. I note the compensation has already been paid to Mr G, and I don't think this amount needs to be increased.

My final decision

I do not uphold Mr G's complaint against Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 28 July 2023.

Rebecca Norris
Ombudsman