



# PRESS RELEASE

12 July 2017

**EMBARGOED UNTIL 00:01HRS ON WEDNESDAY 12 JULY**

## LLOYDS BANKING GROUP LAUNCHES NEW APPROACH TO OVERDRAFTS

- All customers will pay a simple daily rate with no additional fees and charges
- Charges based on how much customers borrow and for how long
- All fees and charges associated with unplanned overdrafts will be removed
- Customers will be sent free text alerts to help them stay in control of their finances

Lloyds Banking Group is today announcing a simplification of overdrafts for its personal current account customers. The new approach will be simple, clear and will give customers more control of their overdraft borrowing.

We understand that, across the banking sector, overdrafts can be complex and confusing for customers. Lloyds Banking Group has listened to customer feedback and is announcing changes to make overdrafts simple and clear from November 2017. More than 9 in 10 personal current account customers of Lloyds Bank, Bank of Scotland and Halifax will be either better off or unaffected financially by the changes.

The Group has over 3 million basic bank accounts in products that charge a fee for missed payments\*. These fees will be removed from all basic bank accounts in November.

### Key features include:

- From November, there will be a simple, single rate of 1p per day for every £7 of planned overdraft usage, clearly linking the amount charged to the amount and period of borrowing
- All fees and charges associated with unplanned overdrafts will be removed
- No more additional overdraft fees for missed payments, so customers will no longer be charged a returned item fee for having payments stopped due to lack of funds
- A daily fee will be charged at the end of each day of planned overdraft usage, avoiding cumulative fees being charged weeks later, helping customers to budget

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# PRESS RELEASE

12 July 2017

- Customers who have given their mobile number to the Bank will automatically receive free text alerts, including low balance alerts, putting them in control of their budget

## What this means in practice

With the new simple, single rate, a Lloyds Bank customer with the Classic current account who goes overdrawn by £100 within their planned limit for 10 days, will pay £1.40. Previously, they would have been charged £6.38.

A Halifax customer with a Reward current account, who goes overdrawn by £100 up to their planned limit of £100 for ten days, and is also unplanned by £50 for two of those days, will pay £1.40. Previously they would have been charged £18.00

Across the industry banks also allow some customers to temporarily access an unplanned overdraft, for example when a budgeting error means there would be insufficient funds to clear a direct debit. At the moment, a customer who goes beyond their limit would typically face charges for being in an unplanned position. In future they will face no such charges. Additionally, in situations where an unplanned overdraft isn't authorised and a payment is stopped, there will be no returned item fees.

The average debit balance for a Lloyds Banking Group customer using their overdraft is typically around £450 a month.

**Vim Maru, Group Director, Customer Products & Marketing, Lloyds Banking Group,** said: *"This new approach is simple and clear, giving customers more control of their overdraft borrowing and how they manage their finances. When asked about our new approach, over 80% of customers said that they preferred it compared to the current charging format."*

## Support for customers

Lloyds Bank, Halifax and Bank of Scotland will write to all customers at least two months before the new overdraft approach comes into effect to clearly set out the changes. The letter will provide support material to help customers understand how this will impact them based on their circumstances and additional guidance to help customers through the transition.

There are a number of ways in which the Bank already supports customers to manage their finances and provides them with appropriate borrowing options based on their individual needs. This is one of the reasons why customers are already making less use of overdrafts.

To build on this existing support, the Bank will write individually to the small proportion of customers who have higher overdrafts, and will pay higher fees. They will be provided with additional support during the transition to the new approach and, where necessary, there will be a tailored transition plan for customers to ensure they are prepared. This may include a

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# PRESS RELEASE

12 July 2017

review of the options available, such as a personal loan, which may better meet their underlying borrowing needs.

The new approach to overdrafts comes into effect from November this year.

**Mike O'Connor, Chief Executive, StepChange Debt Charity** said: *"We welcome a new approach that makes the cost of overdraft borrowing more transparent and removes unplanned overdraft and returned item fees. Around half our clients have struggled with overdraft debt so we are pleased to see a specific focus on helping borrowers with larger overdrafts to stay in control of their finances. This looks a positive step forward, but there is a need to monitor what happens next, not least for the questions this announcement poses for the overdraft market as a whole."*

-ENDS-

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12 July 2017

## Notes to Editors

### Comparison with current overdraft approach

	 Classic	 Reward	 Classic	New approach
Planned	0% EAR < £25 19.89% EAR > £25	£1 per day < £2k £2 per day £2-3k £3 per day > £3k	0% EAR < £25 19.89% EAR > £25	Single, Simple Price Point 1 pence per day per £7
Unplanned	19.89% EAR £5 per day £10-£25 £10 per day > £25	£5 per day	19.89% EAR £5 per day £10-£25 £10 per day > £25	Removed
Monthly Usage Fee	£6	–	£6	Removed
Returned Item Fee	£10 per item (max 3 per day)	Not charged on full facility accounts	£10 per item (max 3 per day)	Removed
Fee Free Buffer	£25	£50	£25	Removed

Customers with Club Lloyds accounts, Student accounts or those with added value accounts, such as the Halifax Ultimate Reward Current Account or Lloyds Bank Platinum Account, will continue to be eligible for Planned Overdrafts where a portion of their borrowing is fee-free. For example with Club Lloyds the first £100 of planned overdraft borrowing is fee-free

### Comparisons based on a range of scenarios across different accounts

#### Halifax Reward

	Current	New
Planned 10 days (using all of limit)	£100	10.00
	£500	7.10
	£1,000	14.20

#### Halifax Reward

	Current	New
Overdrawn at limit for 10 days, of which 2 days are also unplanned by £50	£100	18.00
	£500	7.10
	£1,000	14.20

#### Lloyds Classic

	Current	New
Planned 10 days (using all of limit)	£100	6.38
	£500	7.10
	£1,000	14.20

#### Lloyds Classic

	Current	New
Overdrawn at limit for 10 days, of which 2 days are also unplanned by £50	£100	26.43
	£500	28.43
	£1,000	30.93

Note: £50 unplanned added to the stated balance e.g. £500 becomes £550

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# PRESS RELEASE

12 July 2017

Planned Only – 7 days			
Planned Only	£100	£500	£1,000
New Approach	<b>£0.98</b>	<b>£4.97</b>	<b>£9.94</b>
	£7.00	£7.00	£7.00
	£6.26	£7.67	£9.42
	£6.26	£7.67	£9.42

\*7 days of customer using all of planned limit

Planned 5 days + Unplanned 2 days by further £50			
Planned Balance +£50 unplanned	£100	£500	£1,000
New Approach	<b>£0.98</b>	<b>£4.97</b>	<b>£9.94</b>
	£15.00	£15.00	£15.00
	£26.31	£27.72	£29.47
	£26.31	£27.72	£29.47

\*5 days of customer using all of planned limit and further 2 days of additional £50 unplanned

Accounts used:

- Halifax Reward Current Account
- Lloyds Classic
- BOS Classic

## Case study examples

### Case study 1 – £250 planned borrowing for 10 days

Safiya is a Halifax customer with a Reward current account, who has used £250 of her £500 planned overdraft limit for 10 days.

She has a £50 fee free buffer and pays £1 per day for any amount of planned overdraft below £2000.

The total cost of this borrowing under the current approach would be £10.00.

With the new approach, Safiya will pay a single rate of 1p per day for every £7 of borrowing with no other fees or charges. Therefore the cost of this borrowing will be £3.54.

### Case study 2 – £450 planned borrowing for 7 days (£450 is the average debit balance for a Lloyds Banking Group customer using their overdraft in any given month)

Sarah is a Lloyds Bank customer with a Classic current account who has used £450 of her £1000 planned overdraft limit for 7 days.

She has a fee-free buffer of £25 and pays 19.89% interest (EAR) on any amount of planned borrowing over £25, along with a monthly usage fee of £6.

The total cost of this borrowing under the current approach would be £7.49.

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12 July 2017

With the new approach, Sarah will pay a single rate of 1p per day for every £7 of borrowing with no other fees or charges. Therefore the cost of this borrowing will be £4.48.

### **Case study 3 – £750 planned borrowing for 15 days**

Arun is a Lloyds Bank customer with a Classic current account, who has used £750 of his £1000 planned overdraft limit for 15 days.

He has a fee-free buffer of £25, and pays 19.89% interest (EAR) on any amount of planned borrowing over £25, along with a monthly usage fee of £6.

The total cost of this borrowing under the current approach would be £11.45.

With the new approach, Arun will pay a single rate of 1p per day for every £7 of borrowing with no other fees or charges. Therefore the cost of this borrowing will be £16.16.

As Arun will be paying more, he should consider the additional support available to help him manage his overdraft, and alternative products may be more suitable for his needs if he regularly uses his overdraft to borrow larger sums for an extended period of time.

### **Case study 4 - £1000 planned borrowing for 7 days, including 2 days of £50 unplanned borrowing**

Tracey is a Halifax customer with a Reward current account, who has used £1000 of her £1000 planned overdraft limit for 5 days. A payment from her account also took her into an unplanned overdraft. She has gone £50 pounds into her unplanned overdraft for 2 days. In all, she has been overdrawn for 7 days. She has also had 1 direct debit payment stopped due to insufficient funds when her unplanned overdraft was not extended further.

She has a fee-free buffer of £50 and pays £1 per day for any amount of planned overdraft borrowing below £2,000.

She also pays a flat daily fee of £5 for her unplanned borrowing. Her account does not charge returned item fees.

The total cost of this borrowing under the current approach would be £15.

With the new approach, Tracey will pay a single rate of 1p per day for every £7 of borrowing with no other fees or charges. Although she has unplanned borrowing, there are now no additional charges for this. Therefore the cost of this borrowing will be £9.94.

If Tracey's mobile number is registered with the Bank, she would have received a text alert notifying her that she had insufficient funds. At this point, she could apply to extend her planned limit, or transfer money from another account, to prevent the payment being stopped. She would also receive a letter informing her that the payment hasn't been made.

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12 July 2017

## **Case study 5 – £2500 planned borrowing for 7 days**

Tom is a Lloyds Bank customer with a Classic current account, who has used £2,500 of his £3,000 planned overdraft limit for 7 days.

He has a fee-free buffer of £25, and pays 19.89% interest (EAR) on any amount of planned borrowing over £25, along with a monthly usage fee of £6.

The total cost of this borrowing under the current approach would be £14.68.

With the new approach, Tom will pay a single rate of 1p per day for every £7 of borrowing with no other fees or charges. Therefore the cost of this borrowing will be £25.08.

As Tom will be paying more, he should consider the additional support available to help him manage his overdraft, and alternative products may be more suitable for his needs if he regularly uses his overdraft to borrow larger sums for an extended period of time.

## **Customer research**

3,400 consumers from Lloyds Banking Group and other high street banks completed a 20 minute online survey between 21 April and 4 May 2017. 4 in 5 customers would prefer the new approach to their current overdraft.

## **Basic bank accounts**

\*Lloyds Banking Group has a share of basic bank accounts greater than 40%.

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