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Sir Mark Hendrick MP
House of Commons
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14 February 2019

Dear Sir Mark,

Thank you for your email of 13 February which raised issues that have also been highlighted to Members of Parliament by the union Affinity. I have been asked to reply.

It won't surprise you that we disagree with the claims made by Affinity, but we recognise that the way banks – and Lloyds – price lending to customers who, from time to time, need to borrow money without recourse to a loan or a credit card is a matter of public interest. We welcome the opportunity to make our position clear.

In November 2017 we simplified our pricing for the arranged overdrafts we offer our customers, as part of a phased series of reforms designed to tackle some of the long-standing complaints about overdrafts we have heard from customers and others.

Critically, we became the first – and so far the only one – of the major banks to do away with unplanned overdraft fees altogether. The move was welcomed by our customers and recognised as a significant moment by our industry and by consumer groups and parliamentarians.

We regret that other banks have not followed suit. It means the pricing structure of unplanned overdrafts currently used by our competitors can lead to customers incurring substantial fees as a result of small budgeting errors, and can be far in excess of the amount borrowed. We know that the impact of these unplanned overdrafts is not spread evenly across society. The latest consultation paper in the FCA's High Cost Credit Review says: "People living in deprived areas are more likely to incur these fees and in some cases unarranged overdraft fees can be more than 10 times as high as fees for payday loans. [Those living in deprived areas] pay around twice as much in fees and charges as those in less deprived areas."

We still believe that addressing the issue of high unplanned overdraft fees is important for the industry, and would have a notable and positive impact on millions of customers, particularly those who are vulnerable. That is why we welcomed the FCA's proposal in its latest consultation to simplify the price of overdrafts, end the high cost of unarranged overdrafts and increase transparency. We will of course pay particular attention to its recommendations when they are published. We continue to engage with the FCA on this issue and believe that our revised proposition still meets the FCA's objective that overdrafts be simpler, fairer and easier to manage.

In addition to removing charges for unarranged overdrafts, in November 2017 we also introduced a daily overdraft fee of 1p for every £7 borrowed. This means that fees are charged at the end of the day rather than weeks later. It helps customers stay in control of their finances and avoid the surprise of charges stored up and applied at a later date. Customers are also auto-enrolled to receive text alerts to help them better manage their accounts. For example, customers receive an alert when they approach their limit and each time they enter a debit position.

We are delighted that this new approach has led to significant behavioural change, with many customers paying down their overdraft, and a reduction in the number of customers who use their overdraft every single month in a year. It has also significantly reduced complaints and heavy overdraft use. These are the kinds of benefits we believe would be available more widely if more banks took similar steps. Encouraging responsible borrowing reflects our commitment, as the UK's largest retail and commercial bank, to help Britain prosper.

As you would expect, we regularly review our fees in light of market conditions. As you point out in your letter, in November last year we wrote to all our customers to let them know we planned to introduce a banded calculation for that daily fee, based on level of borrowing:

Pricing bands	Borrowing up to £1,250	Borrowing between £1,250 and £2,500	Borrowing more than £2,500
Price per £ borrowed	1p for every £6	1p for every further £7	1p for every further £8

We recognise that this change will have an impact on our customers, but on average we believe that this will be small.

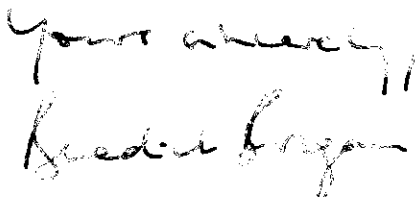
All other features of our market-leading overdraft proposition remain the same:

- The single daily arranged overdraft fee remains.
- Our customers are not charged for unarranged overdrafts.
- Our customers do not pay returned item fees.
- Our customers continue to receive text alerts to help them manage their money.

Finally, I should set out the background to the bank's relationship with Affinity, which markets itself to employees in the Group as BTU. Three years ago in the face of Affinity's refusal to work collaboratively and constructively with our other recognised trade unions or with the Group, we ended our formal recognition agreement and new arrangements were put in place. We work closely with our two main recognised unions, Unite and Accord, and that collaboration has delivered significant benefits for our colleagues.

Colleagues can still choose to be a member of Affinity or any union and be represented by them individually at formal hearings. However, only Accord and Unite are able to negotiate on issues such as annual pay, or employment terms and conditions, or have the right to be consulted on organisational changes. Affinity has no role in collectively representing colleagues in the bank. This means they have no dialogue with the bank's senior management and no insight into the Group's strategy, plans or performance.

Thank you again for taking the time to write. If you require further information or would find a discussion on any of the subjects I have covered helpful I would be delighted to meet you.



BENEDICT BROGAN
Group Public Affairs Director