

## **The complaint**

A company, which I'll refer to as "M", complains that Starling Bank Limited unfairly closed its bank account and defaulted its Bounce Back Loan.

Mr A is M's director and he brings the complaint on the company's behalf.

## **What happened**

M banked with Starling and borrowed £50,000 from the bank through the Bounce Back Loan Scheme. Mr A also banked with Starling in a personal capacity, but this complaint deals only with the accounts held by M.

Starling initiated a review of the accounts held by Mr A, including that of M's, in July 2021. A restriction was applied to M's account, meaning that the funds held within it couldn't be utilised, while the review was completed.

The findings of Starling's review ultimately led it to withdraw its services from M. Starling wrote to M in August 2021 to advise that it was closing the company's bank account. It said that the account balance – of around £4,100 – would be issued to M by cheque.

On attempting to pay in the cheque, Mr A learned that it had been cancelled. After raising this with Starling, he was told that this was due to "banking restrictions", and that the bank was looking at an appropriate way to proceed in consideration of the Bounce Back Loan.

Starling subsequently terminated the Bounce Back Loan facility. It sent M a default notice in November 2021 demanding immediate repayment of the outstanding balance, which was around £50,300. The bank later applied the closing balance of M's account to the amount owed under the Bounce Back Loan agreement. So there were no funds left to distribute to M.

Mr A doesn't think Starling's restriction and closure of M's account, or its termination of the Bounce Back Loan, were fair. He says M was left unable to pay the loan while its account was being closed – and that, despite his requests, Starling didn't advise him of an alternative means of payment. He's also unhappy that M was left without the closing balance held in the account, and that Starling has declined to offer M access to the Pay As You Grow (PAYG) repayment options that are typically available under the Bounce Back Loan Scheme.

Our investigator didn't think Starling had done anything wrong in restricting and closing M's account, or in terminating the Bounce Back Loan. She said the bank had demonstrated that it had reasonable grounds for taking these actions, and had done so in line with the applicable terms and conditions. She also said that Starling had been entitled to use the funds held in M's account to pay down the Bounce Back Loan debt. But she thought that the bank had made an error in initially advising M that it would release the balance to the company – and sending it a cheque that could then not be cashed. For the inconvenience this had caused, she recommended that Starling pay M compensation of £100.

Mr A didn't accept our investigator's view. He still didn't think it was fair for the loan to have been defaulted, given that payments had been up to date prior to the closure of M's account and, thereafter, he'd been asking Starling how to continue making payments without reply. He wanted Starling to grant M access to the PAYG options, such as a payment holiday or term extension.

With no resolution, the complaint was passed to me to decide.

### **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.

Starling has a number of legal and regulatory obligations to meet in providing banking services to its customers. Banks are required to keep accounts and their use under review, and may need to suspend access or services in order to do so.

The terms and conditions of M's account allowed Starling to suspend its services. In its response to M's complaint, Starling explained that it restricted the company's account in order to comply with its legal obligations. And I'm satisfied, from the evidence it has provided to us, that this was the case. So I don't think Starling did anything wrong in restricting M's account while conducting its review.

Following the review, Starling decided to close M's account. That was a decision it was entitled to make. The terms and conditions allowed the bank to close the company's account for any reason at any time by giving two months' notice. But it could also do so immediately in certain circumstances.

While M's account technically remained open for a few months after the bank had given the company notice of the intended closure, it was effectively closed immediately as M was unable to use it in any meaningful way because the restriction remained in place. Given the circumstances here, I think Starling was entitled to close M's account immediately – so I don't think M was treated unfairly here. There was, though, a complication in how Starling dealt with the funds that M held in the account at the time of the closure. But, as that relates to the company's Bounce Back Loan debt, I'll come on to that in more detail below.

Starling's review also led it to terminate M's Bounce Back Loan facility. The terms and conditions of the loan allowed the bank to cancel the facility and demand its immediate repayment of the loan in certain circumstances.

I understand from what Mr A has told us that he doesn't think the default of the loan was fair, as M had been up to date with the repayments prior to the suspension of its bank account – and as it only had trouble doing so thereafter because it couldn't get an answer from Starling as to how it should make payments now that the account from which its direct debit was paid was being closed. But the loan wasn't defaulted due to any issues with payment (or non-payment). The loan was defaulted in light of the findings of Starling's review.

As noted above, the loan agreement provided for a number of circumstances in which Starling could terminate and recall the loan. While the failure to pay the required instalments would be one such circumstance, it isn't the only one. So the fact that M was maintaining the monthly payments doesn't mean that Starling couldn't terminate the agreement. I'm satisfied that Starling was entitled to recall the loan in the manner it did, given the circumstances here.

I recognise that Starling's decision – and the position this has left M in – will be difficult for Mr A to accept, particularly without knowing the reasons behind it. But Starling isn't obliged to disclose its rationale and I can't fairly require it do so. Our rules allow us to accept information in confidence, so Starling has shared the reasons for its decision with us on that basis. I can assure Mr A that I have carefully reviewed this in assessing whether Starling acted fairly, and in concluding ultimately that it did.

The terms and conditions of M's account and the loan agreement also gave Starling the "right of set off" – meaning, in short, that it was entitled to use any funds held in any of the accounts M held with it to repay any amounts that the bank was owed. So I don't think Starling did anything wrong in using the funds from M's account to reduce the amount owing under the Bounce Back Loan agreement.

There was, though, an error on Starling's part in advising M that the closing balance would be released to it – and, further, in issuing a cheque that Mr A attempted to cash, only to find that it had been cancelled. None of that should've happened. The bank should either have finalised its intentions regarding the Bounce Back Loan at the same time as closing M's account, or at the very least advised Mr A that the account balance was under review. Instead it caused M inconvenience in attempting to cash a cancelled cheque, and then having to engage with the bank to work out what was happening. It's right that M is compensated for that. To that end, I also think that £100 compensation is fair.

I understand Mr A wants Starling to allow M to repay the loan over the originally agreed terms of repayment to include access to the PAYG options. But with the loan having defaulted, the balance became immediately repayable. The original payment schedule has ceased to apply, and M is not eligible for the PAYG options due to the default. I can see that Starling explained this to M in December 2021.

I take it from what Mr A says that M might not have the means by which to repay the full amount owing. So I suggest he liaises with Starling as to a way forward, if he hasn't already done so while awaiting the outcome of this complaint. I'd expect Starling to give fair consideration to any repayment proposals he makes.

### **My final decision**

For the reasons set out above, I uphold this complaint and require Starling Bank Limited to pay M compensation of £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 11 April 2023.

Ben Jennings  
**Ombudsman**