

The complaint

A company, which I'll refer to as C, complains that Lloyds Bank PLC acted unfairly regarding the repayments due for the company's Coronavirus Business Interruption Loan (CBIL) and that the bank wrongly defaulted the loan.

What happened

CBILs were part of a government-backed scheme designed to help small and medium-sized businesses get finance more quickly if they were adversely affected by the coronavirus outbreak.

In May 2020, C signed an agreement with Lloyds for a £100,000 CBIL. Several months later, after a review, Lloyds gave notice that it no longer wanted C as a customer, then closed the company's bank account. The CBIL remained in place, and the bank opened a loan servicing account (LSA) so that C could repay the loan when appropriate.

The CBIL repayments were initially scheduled to start in December 2020, but the parties later agreed a six-month repayment holiday. Payments were therefore due to begin in June 2021.

The first repayment due in June 2021 was missed, as were subsequent monthly repayments. In September 2021 the loan account was put in the hands of the bank's recoveries team.

C's director complained that Lloyds hadn't given him details of where to pay and didn't confirm how much was to be paid each month. To resolve the complaint, C wished to repay the loan as agreed, without making it too onerous, and for any negative credit file markers to be removed.

Lloyds didn't think it had acted unfairly regarding the CBIL, but acknowledged some service failures. The bank offered £300 compensation.

Our investigator looked at the evidence and concluded that the bank's offer was enough to settle the complaint. He gave the following reasons, in summary:

- Under the terms and conditions of the CBIL, payments had to come from a Lloyds account, and the bank made it clear that money would have to be paid into the account in order to service the loan. Lloyds automatically opened the LSA for this purpose after C's business bank account was closed in 2020. The bank sent a letter to C with the LSA account details. The investigator was satisfied C was aware of the account details before payments fell due, because its director communicated with the bank about this account as early as January 2021.
- In April 2020, C was given a schedule of the monthly capital and interest repayments that would be due. Lloyds said it would have sent a revised schedule when the repayment holiday was agreed in October 2020, though the Bank of England base rate remained the same and so the repayment amount wouldn't have changed. The

bank hasn't been able to provide a copy of the revised schedule, but the investigator said the compensation proposed by Lloyds was sufficient to cover this.

- When the three payments were missed in June, July and August 2021, Lloyds sent an LSA statement to C each time, showing what was owed. C's director didn't contact the bank in response until November 2021.
- The first LSA statement in July 2021 showed the amount that the bank had attempted to take for the loan repayment. So this would have made C aware of the account details and the amount owed.
- Lloyds passed the account to its recoveries team on 3 September 2021, and this would have been the date the default was reported to credit reference agencies. Banks have an obligation to record accurate information to these agencies. As C hadn't made the required repayments, the investigator didn't think Lloyds had made any error in reporting the default.

C didn't agree with the investigator's conclusions. Its director made the following points, in summary:

- C never received any communications whatsoever from Lloyds about the payments required until November 2021.
- When C took out the loan, it was told that payments would be taken by direct debit and details would be notified in advance. It's not the customer's responsibility to try to work out the payment due.
- C may have been aware of the existence of the LSA, but the company had no login details or means of accessing the account and therefore no way to repay the loan.
- By lodging a default despite C's obvious willingness to repay the loan, Lloyds has acted unfairly and unreasonably.

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 that, I've reached the same conclusions as the investigator, and for largely the same reasons.

I'm satisfied that C knew, from the time of the repayment holiday agreement onwards, that monthly repayments of capital and interest would begin in June 2021. I'm also satisfied that C knew that Lloyds would take the payments from the LSA. In other words, it's my view that the company knew it needed to place enough funds in the LSA to cover the repayments starting in June 2021.

C didn't transfer any funds to the LSA, and therefore no repayments could be taken from the account.

C knew how much the monthly repayments would have been under the original agreement. Lloyds says that it also provided an updated schedule after the repayment holiday agreement (showing repayments that would have been almost identical to the original). But even if the bank had failed to send that updated schedule, I'm not persuaded that the reason

C didn't put funds into the LSA was because the company was unsure about how much to transfer.

I say that for three reasons. First, C already knew, from the repayment holiday agreement, that the monthly capital repayment would be £1,666.67. So the only uncertainty that might have troubled C would have been the scale of the monthly interest payment, which in the original schedule started at about £180. Even if there had been a large change in interest rates over the six-month repayment holiday, the total monthly repayment wouldn't have changed substantially, because the interest component of the repayment was such a small proportion of the total. But in any event, there hadn't been any change in interest rates at all. So I think C could have predicted with confidence that the sum that Lloyds would take as the first repayment would be about the same as in the original schedule.

Secondly, C didn't need to know the exact amount that would be taken in the repayment. It needed only to ensure there were enough funds in the LSA to cover it. If C had been unsure about the precise repayment that would be taken, it could have lodged funds in the account at a higher level than necessary, to allow a margin of error. As the only uncertainty was the interest component, only a small margin would have been needed, which would have put no substantial financial burden on C. So, in my view, C had a simple way of ensuring it wasn't caught out by a repayment that was larger than it expected. By contrast, transferring no funds at all to the LSA ensured that the repayment would fail.

Thirdly, C took no action to fund the LSA after it received the information from the bank about the first failed repayment. Even if C had left the LSA unfunded in June because it wasn't sure about the amount required, the bank's subsequent communications showed how much needed to be deposited to make up for the failed repayment and to meet forthcoming repayments. But C didn't take any action for over four months. I therefore conclude that it wasn't an absence of information that prevented C from placing funds in the LSA.

C says that it had no login details for the LSA. But I'm satisfied that C knew the account details – the sort code and account number – and would therefore have been able to transfer funds to the account as required.

C's director has said Lloyds sent C no communications about the repayments until November 2021. But the bank has supplied copies of correspondence that it sent to C from 17 July 2021 onwards – letters saying that repayments had been missed, monthly statements of the LSA, letters asking C to get in touch regarding the resulting unauthorised overdraft, and a formal demand letter. They were addressed to C's business premises, which was also its registered company address. I'm satisfied that Lloyds sent these communications to C.

For all the above reasons, I don't find that Lloyds acted unfairly or unreasonably in registering a default of the loan and passing the CBIL debt to its recoveries team.

Putting things right

Lloyds has made an offer of £300 compensation for some service failures. I think this offer is enough to settle the complaint fairly in all the circumstances. I don't require the bank to do anything else.

My final decision

My final decision is that Lloyds Bank PLC should pay £300 to C.

Under the rules of the Financial Ombudsman Service, I'm required to ask C to accept or

reject my decision before 28 August 2023.

Colin Brown
Ombudsman