

The complaint

L, a limited company, complains that TSB Bank Plc unreasonably closed their account, and used their balance to pay off lending. They'd like the lending reinstated and compensation.

What happened

L held accounts with TSB. But in May 2023 they found they couldn't access the account.

The blocks were later removed, but TSB wrote to L to say they would be closing the accounts in 60 days' time. But just over a month later the bank took the decision to close the accounts immediately. The bank used funds held in the account to repay an outstanding bounce-back loan (BBL) which L had with the bank. The remaining balance was returned to L almost three weeks later.

L complained about this, saying they had attempted to switch the current account to another provider, but the immediate closure had prevented this. They also said they'd attempted to repay the BBL but had been rebuffed.

TSB responded to say that they didn't think they'd done anything wrong. They said the closure was in line with the terms of the account, and they weren't obliged to give a reason for this. Because they had applied blocks, they couldn't allow the switch to proceed. They also said the BBL agreement gave them the right to use credit balances to pay off any amounts owed to the bank.

Unhappy with this L referred their complaint to our service. They explained the difficulty the closure had caused them and said that the funds used to repay the BBL had been client funds.

One of our investigators looked into what happened but didn't think TSB needed to do anything further. They said that TSB had acted in line with their legal and regulatory obligations when decided to block, and subsequently close L's account. They were also minded that the terms of the BBL said it required a servicing account, and as this had been closed TSB could call in the loan. They couldn't see that the funds used were held in a designated client account, so didn't see it as unreasonable that TSB used these funds to repay the outstanding borrowing.

L disagreed. They said they still had accounts that could have been used to service the BBL and couldn't see why TSB couldn't wait to allow the switch to proceed. They said TSB should at least pay interest on the sums held.

As no agreement could be reached the complaint has been 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.

Having done so, I'm satisfied that I have enough information to reach a fair conclusion on this case.

Account blocks and closure

The investigator was right to highlight that TSB, like all UK banks, have strict legal and regulatory obligations to meet when providing accounts to their customers. Broadly these obligations can be described as a duty to monitor accounts for signs of financial crime or financial harm and take reasonable and proportionate steps to investigate any concerns they may have.

This means TSB may need to take a closer look at an account's activity, or ask the account holder for further information on how the account is being used. It may also be necessary to block the account to prevent any further transactions while they do this.

There is provision for this in the terms of L's account. I can see that they have in the past asked L for further information about funds in the account, which L has provided. In this case TSB decided to block the account while a review was conducted, and I can't say that was unfair in itself.

TSB aren't under any specific obligation to explain to L the nature of the review, or what is being considered, and they have declined to do so here. But they have provided their reasoning to our service. Our rules allow us to treat certain evidence in confidence, for example if the information is commercially sensitive or covers internal security procedures. Having considered this carefully I'm satisfied that TSB's reasoning should remain confidential – so I won't be able to detail it here.

I consider TSB's reason for the review to be rational and sensible. I'm satisfied that it was in line with their legal and regulatory obligations. While no doubt the block was inconvenient to L, I don't see that TSB were unreasonable in applying it.

The result of the review was that TSB wished to end their banking relationship with L. Initially they gave 60 days' notice, which is the amount agreed in the terms. However, they later decided to close the account immediately, before the 60 days had expired. The terms only allow for this in very limited circumstances.

I appreciate this had the knock on effect of cancelling L's account switch, as TSB has set the expectation that they would have 60 days to move any money or payments over. But after carefully considering the reasoning for the closure, I'm persuaded that the immediate closure was reasonable, and in line with the terms of the account.

Overall, I agree this will have been difficult for L, and will have disrupted their business. But I don't see that TSB have been unreasonable or unfair in their decision to close the accounts in the manner they did.

I've also not seen anything to suggest there was an unreasonable delay in returning the funds in the account to L. As such, I'm not asking them to do anything further here.

Recalling and setting off the BBL

The terms of the L's lending agreement with TSB called for there to be a servicing account from which to repay the BBL – and in this case the servicing account was closed by TSB. As there was no longer a servicing account the terms allow TSB to treat this as an "event of default" and call in the BBL.

I've considered L's position that they could have serviced the loan using another provider. The terms of the BBL say that a servicing account is "*will be the business current account if you hold one with the Bank. If you do not have a business current account, we'll set up a servicing account which will solely be for enabling you to have a loan with the Bank*".

This tells me that TSB would only consider a servicing account held with them for repaying the loan. I've considered whether the terms of the BBL should have compelled TSB to set up a separate servicing account. But I'm not persuaded this would be a reasonable expectation – as mentioned above I'm satisfied it was a reasonable decision for TSB to end their banking to relationship with L. So, it would be unreasonable for them to open another account at this point to service the loan.

I'm satisfied the terms of the current account allowed TSB to use any remaining funds against any outstanding balance on the BBL. This is a standard industry practice known as "setting off". But I have considered whether this was a reasonable decision, based on the circumstances L was in at the time.

L has suggested that TSB used client funds for this, rather than L's. But I'm not persuaded this is the case. I've seen nothing to suggest the type of account L held with TSB wasn't a dedicated client account, or equivalent.

I appreciate L would have preferred to keep paying down the BBL, but I don't see it's unreasonable that TSB offset the outstanding balance of the loan using funds from the current account. On that basis, I'm not asking the bank to do anything further.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 4 October 2024.

Thom Bennett
Ombudsman