

The complaint

A sole trader, who I'll refer to as Mrs C, complains that Lloyds Bank PLC unfairly transferred her business accounts to its Recoveries department, thereby depriving her of access to a current account.

What happened

Mrs C has had two secured business term loans and a bounce back loan ("BBL") since 2020.

Mrs C's business encountered some financial problems. By 2023, she had used up all the Pay As You Grow options available on her BBL and the BBL began to fall into arrears. She continued to make payments on the other two loans and kept the bank informed of the business' financial position, which she was hoping would improve.

In late 2023, with the BBL several payments in arrears, Lloyds issued a formal demand, requiring repayment of the BBL in full within fourteen days. Lloyds also demanded repayment of the other two secured loans in full.

In January 2024, Mrs C rang the bank to agree a repayment plan for the BBL arrears, as there had been an improvement in the business' financial position. The bank went through Mrs C's income and expenditure, but concluded that she could not afford to make up her arrears alongside her regular repayments. The shortfall was extremely small.

Later in January 2024, the bank transferred all Mrs C's loans and her business current account to its Recoveries department.

Mrs C complained. The bank did not uphold her complaint, so Mrs C asked the Financial Ombudsman to look into the matter. One of our investigators did so, but concluded that the bank hadn't made an error.

Mrs C asked for an ombudsman's decision. She told us that she has agreed a repayment plan with Lloyds Recoveries whilst her complaint has been with us. So she thinks it is unfair that the bank won't now move her accounts back to mainstream banking. She points out that being deprived of a business current account is impacting her ability to keep her business running smoothly.

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've reached the same conclusion as our investigator, for essentially the same reasons. I will explain why below.

I think Mrs C now understands the contractual basis for the bank's actions. But I will set out briefly here that I'm satisfied that the bank acted in accordance with the terms of its agreements with Mrs C when it transferred her loans to its Recoveries function. This is because, although neither of the secured loans was in arrears, both loan agreements contained wording known as "cross-default" clauses. These clauses said that failing to pay when due any debts owed to the bank constituted an event of default. This meant that the arrears on the BBL amounted to events of default on the other two loans.

All three of Mrs C's loan agreements said that, once an event of default occurred, the bank was then entitled to cancel any obligations to lend and declare the loans repayable in full. This is what Lloyds did when it issued formal demand letters on all three loans in late 2023.

By the time Mrs C contacted the bank on 16 January 2024, the fourteen day deadline set out in the demand letters had expired and the loans were therefore technically repayable in full. Nonetheless, it is clear that the bank was prepared to show further forbearance and discuss a repayment plan for the arrears.

It is very unfortunate that, following the discussion on 16 January, Lloyds could not set up a repayment plan for the BBL arrears because Mrs C's income and expenditure showed a very small shortfall of under a pound. I can see how exasperating that must have been for Mrs C. But unfortunately, that doesn't mean the bank has done anything wrong. Lenders are expected by the regulator to be able to demonstrate that they only agree repayment arrangements that are affordable for their customers. In order to do that, they need to follow a consistent procedure and that does mean having a clear cut-off point and adhering to it. It's very unusual to fall short by such a tiny amount, but I don't think I can fault the bank for sticking to their procedure.

I'm mindful that by that point, Mrs C had been through her business income and expenditure several times with the bank and on each occasion, the figures had shown that she was unable to afford a repayment plan. So whilst the shortfall was minimal on that occasion, I don't think it's unreasonable that the bank considered it needed to see clear evidence of affordability before proceeding.

In addition, I note that Lloyds' representative did offer a way forward. This was that Mrs C could pay a small lump sum into the BBL, which would then reduce the required repayments slightly, thereby making them affordable. I can see that Mrs C made the payment. But Lloyds did explain clearly that this proposal did require Mrs C to phone back the next day to put the plan in place and unfortunately the evidence indicates that she did not do this.

The bank is also entitled to take away its customers' current account services if it chooses to do so. And it is normal practice to do this when a customer's accounts are transferred to Recoveries. Mrs C argues that she wasn't given fair or adequate notice of this. As our investigator explained, under its terms and conditions, Lloyds did not have to give notice if the bank reasonably believed Mrs C could not repay her debts. Having failed to set up a plan, I think this applied. So I don't think the bank was at fault here either.

I can also see that Lloyds' formal demands did inform Mrs C that the bank's next steps could include "stopping your bank services and closing your account(s)" and I suspect some of the bank's earlier correspondence may have warned of this too. The bank didn't transfer Mrs C's accounts to Recoveries for nearly two months after the formal demands were issued, so I think this gave her fair notice of Lloyds' intention. I also think these letters effectively made it clear that the reason for the withdrawal of banking facilities was the arrears on the BBL.

I know Mrs C is particularly disappointed by Lloyds' refusal to let her operate her business current account again now she has made an arrangement with the Recoveries team and maintained it for a period. She points out that this is impairing her ability to conduct her business. Whilst I understand Mrs C's point that the absence of a current account is making it harder for her to repay her loans, Lloyds is not obliged to re-offer her banking services if it no longer wishes to do so and I don't think it would be fair for me to oblige it to do so.

Lloyds may be willing to consider a fresh application for a bank account from Mrs C at some point in the future, but in the meantime, if she needs a new business bank account, I think she will be better served applying elsewhere.

My final decision

For the reasons set out above, I am not going to direct Lloyds Bank PLC to take any action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 6 February 2025.

Louise Bardell
Ombudsman