

complaint

Y, a limited company, complains that Lloyds Bank PLC blocked its business account without notice. It says this caused inconvenience, financial loss and reputational damage. It wants a large sum in compensation. Y is represented in its complaint by Mr S, one of its directors. For ease of reading, I'll mostly refer to Mr S.

background

Mr S tells us that about four years ago Y entered into a debenture agreement with Lloyds. He says Y has kept to the terms of that in the years following. Earlier this year it had entered into a financial arrangement with a finance company, T - but had overlooked a term in the debenture requiring it to obtain Lloyd's agreement in advance of taking loans from third parties.

Mr S said Lloyds, upon discovering this, had blocked Y's business account - without giving any notice. He'd only found out about the problem when he'd tried to use the bank card and failed. The account blocking had led to considerable problems. Y had to contact its customers and ask them to make payments to an alternative bank account. It's had to make different arrangements to pay its own bills as well as take legal advice and spend many hours on administration. He feels Lloyds has failed to take responsibility and tried to shift it to Y - saying Y should have known or asked. He considers Lloyds hasn't been truthful and has been misleading with its explanations. Mr S is also concerned with the effect on Y's long term reputation and the impact on its credit history.

Lloyds told us it didn't accept it had made any error. It referred to clause 5.1(b) of the debenture and also to the terms and conditions of its business banking accounts. It felt Y should've been aware of the clause because it has entered into previous financial arrangements. And its procedure is to block an account where there's been a breach of any terms and conditions of any product. It confirmed its right to block the account without notice. And to require Y to enter into a Deed of Priority to secure payments of the sums due under the debenture - before unblocking the account. It pointed out it had allowed Y to start reusing the account for credit payments less than two weeks after it had been first blocked.

I issued a provisional decision on this case on 3 October 2017. Since then Lloyds has indicated it agreed with the decision and didn't want to provide any further information. Mr S didn't accept the decision. And whilst he's not submitted any new evidence - he's commented on those aspects of the decision with which he doesn't agree. I'll deal with these in my final decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Until this issue arose there seems to have been a good relationship over many years between Y and Lloyds. And I'm aware that the account has now been restored to normal working. I've considered the viewpoints of both parties and I can see why they differ. Lloyds relies on its terms and conditions and says its procedure in such matters is to block accounts whilst any required steps are taken. Y accepts it overlooked the terms of the debenture - but I think it feels its hitherto good and long term relationship with Lloyds should've resulted in a more sympathetic reaction.

And I think further misunderstanding has been caused by some of the emails which have passed between Mr S and the case handler at Lloyds. Mr S says that the case handler told him Lloyds was legally forced to suspend the account - a fact which Mr S strongly disputes. Having read this correspondence I think what the case handler was trying to explain was that he'd been instructed by Lloyds' legal team to take that action. Not that Lloyds was under a legal obligation to do so. Mr S doesn't agree that this was a misunderstanding - as he feels his representatives made the legal position clear. But I don't think that takes the matter much further. I said in my provisional decision I thought Lloyds could've explained things better - and that remains the case. But it didn't alter its right to make the decision it did.

Having looked at the lengthy submissions, I can see the dispute has raised important issues of concern to both parties. And it may be that all involved will look back and wish that certain steps on both sides could be retraced. There's no doubting Lloyds could have taken a different approach and not suspended the account - but that was a decision it took on commercial grounds. And its terms and conditions do permit such action.

But I do think it could and perhaps should've notified its decision in advance. This wouldn't have affected the level of risk to which Lloyds had been exposed - but it would've given Y more time to make other arrangements and/or obtain the Deed of Priority needed to meet Lloyds' requirements. But even had notice been given it wouldn't have affected the immediate impact on Y. And whilst Mr S has also expressed the view that Lloyd's didn't need to insist on the Deed of Priority - when Y offered an equivalent alternative - it's up to a lender to decide what documentation it requires.

Mr S has also disagreed with my view that Lloyds acted positively and quickly in making the new arrangements that allowed the account to be unblocked. And whilst I understand his frustration at any delay - I don't think the actual delay - six weeks - was unreasonable. Particularly as the account was partially unblocked and some deposits allowed within a couple of weeks.

I understand the serious effects the decision had on Y - which have been set out by Mr S both in the initial complaint and subsequently. Having said that it doesn't alter the fact that the initial cause of this issue was Y breaching terms of its previous agreement. And I don't think it unreasonable to expect a business taking on a significant additional debt (in excess of £100,000) to check the potential effect on any existing agreement. Had this been done this situation could and almost certainly would have been avoided. The consequences suffered by Y flow directly from this omission.

And whilst Mr S has re-emphasised his view that Lloyd's policies were unnecessarily harsh on his company - I repeat the view expressed in my provisional decision. It would be strange if the party not in breach of the terms of business should end up paying compensation to the party which was in breach.

So whilst I agree that Lloyds *could* have taken a different approach - I'm not satisfied that it acted unreasonably. And it tried to mitigate the effects whilst the final agreement was put in place. Whilst I understand the natural concern about effect on reputation and future credit for Y - there's no evidence that either will be affected. Even the best run of companies has occasional issues - and by any standards these were resolved in very quick time.

So whilst I know this will disappoint Y - I'm not upholding this complaint.

my final decision

For the reasons given above my final decision is not to uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Y to accept or reject my decision before 7 December 2017.

Stephen D Ross
ombudsman