

The complaint

N, a company, complains that Lloyds Bank PLC withdrew its overdraft facilities and asked it to make alternative banking arrangements even though its financial position was improving.

N is represented in this complaint by one of its directors, Mr K.

What happened

Lloyds wrote to N in May 2022, following a discussion with N, to say that it remained concerned about N's income generation, borrowing levels and ongoing viability. It said that notwithstanding the steps that N had taken, it was concerned that N wouldn't be able to generate enough income to service all its commitments. It said it would renew N's overdraft facility for six months, but would not renew it beyond that. It suggested that N use the six months to look for an alternative finance provider for its borrowing. Meanwhile, it asked N to keep its accounts within the agreed overdraft limits and make its loan repayments on time.

Following further discussions, Lloyds wrote to N again the following month. It acknowledged that some of N's borrowing was relatively short-term, but it said that in light of the difficult trading conditions during and after the covid pandemic, it found it hard to see how N would be able to afford its existing debt repayments from trading profits or cash on an ongoing basis. It said it had needed to return multiple items due to lack of funds on N's accounts, and it reiterated its decision not to extend N's overdraft beyond November 2022. It recommended that N look into ways of refinancing its borrowing into a more affordable structure.

In October 2022, a couple of weeks before N's overdraft facility was due to be withdrawn, Lloyds agreed to extend it for a further three months to allow N more time to consider its options with the help of professional advisers. But Lloyds said its concerns remained, and that unless N could clearly show that it could meet its monthly repayments in the short term, it would be unlikely to extend N's facilities beyond February 2023.

Mr K says Lloyds' approach changed when a new relationship manager took over N's accounts at the end of 2021. He says that previously Lloyds had been willing to pay salaries at the end of the month and then honour items presented during the following week, as long as the balance fell back within the agreed overdraft limit by the end of that week. But he says that following the change of relationship manager, Lloyds started returning items it would previously have paid, with no warning.

Mr K says the fact that N's statements showed returned items made the task of refinancing its borrowing more difficult. He says that if Lloyds had warned N about the change in approach, it might have been able to raise enough capital to keep it within the limit and avoid returned items.

Mr K is dissatisfied that Lloyds decided to stop its support for N even though N had improved its finances over the previous few months. He says professional advisers produced projections which support N's view that its difficulties are short-term, and that its underlying business is sound, and worthy of Lloyds' continuing support.

Lloyds says its Business Support Unit (“BSU”) is designed to work with customers whose accounts appear to be experiencing long-term difficulties, to help them achieve a return to financial health. It says clients are typically with the BSU for two to five years. It says that by the end of 2022 N’s accounts had been managed by the BSU for around ten years, with the exception of a few months in 2016, and there was nothing further it could offer.

Lloyds doesn’t accept that it managed N’s accounts differently following the change of relationship manager. It says that both before and after the change, it paid some business-critical direct debits even though they took the account over the overdraft facility, but returned other items. It says allowing essential payments to be made was a concession.

One of our investigators considered the complaint but didn’t think it should be upheld. In summary, she said Lloyds had supported N through financial difficulties for almost ten years and N’s position hadn’t improved sufficiently. Lloyds had reviewed the position thoroughly and considered there was nothing more it could do. She said Lloyds was entitled to withdraw N’s overdraft facility at any time, and to make a commercial decision to end a customer relationship altogether.

Mr K, on N’s behalf, didn’t agree with the investigator’s view, so the complaint has been passed to me.

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 decided not to uphold the complaint. I’ll explain why.

N says it started banking with Lloyds in 2009. When N raised its complaint in late 2022, its accounts had been managed by Lloyds’s BSU for around 10 of its 13 years with the bank. N acknowledges that Lloyds had supported it to deal successfully with challenges, and to trade out of some very difficult positions. Mr K has mentioned that at the end of 2019 N was anticipating a return to mainstream banking. The covid pandemic inevitably affected business.

Having reviewed N’s financial figures Lloyds was concerned that N wouldn’t be able to service its debt from profits or cash. I acknowledge that Mr K disagrees, and considers that it was unreasonable of Lloyds to decide to discontinue its support for N even though its financial performance was improving. But Lloyds says N’s relationship manager was confident that Lloyds had exhausted the support it could offer to N. The head of the BSU had also reviewed N’s accounts and considered that ending Lloyds’ relationship with N was the right course of action.

I’m satisfied that Lloyds had made a sustained and considerable effort to support N through hard times over many years. Ultimately, it was entitled to make a commercial decision to stop providing banking facilities to N. It gave N the required notice and then provided additional time for N to continue to work with professional advisers to try to find a way forward. I’ve seen nothing to make me think that Lloyds acted unreasonably, or that it breached its own SME Charter or the Lending Standards Council’s Standards of Banking Practice, as Mr K has suggested.

Mr K has commented that from early 2022, Lloyds began to return payments that it would previously have allowed, and that it gave no warning of this. He says that at the very least Lloyds ought to have explained its position to N and given it a chance to make representations.

But Lloyds had asked N to keep its accounts within the agreed overdraft facility limits and make its loan repayments on time. Lloyds was under no obligation to honour payments when the account was overdrawn beyond the agreed limit. I can understand why N might have hoped that Lloyds would continue to allow such payments, but that doesn't mean that it acted wrongly in not doing so. I've seen N's current account statements for four months either side of the change in relationship. The account generally remained within the agreed overdraft facility in the months before the change. After the change it looks as if it exceeded the facility more often, and when it did so, Lloyds returned some payments.

I'm not persuaded from what I've seen that there was a change in Lloyds' approach to making those payments. But even if there was, I think it unlikely that a warning of the change would have resulted in N being able to prevent the payments from being returned. By April 2022 N would have been aware that items risked being returned unpaid where the account exceeded the overdraft limit. But it didn't pay money in in time to prevent several direct debits being returned that month. And in any case, I consider that it would have been clear to any future lender that N's account balance wasn't always within the agreed limit, whether or not items were returned unpaid as a result.

I don't underestimate how difficult Lloyds' decision to end its relationship with N made things for N. Mr K has set out in some detail the history of N's financial situation since it started banking with Lloyds. He's explained the reasons why N has struggled financially. I have sympathy with N's directors, and I know that my decision will come as a disappointment to them. But having thought carefully about everything that N and Lloyds have said, I can't fairly uphold this complaint.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask N to accept or reject my decision before 15 November 2023.

Juliet Collins
Ombudsman