

The complaint

A limited company, which I'll refer to as T, complains that National Westminster Bank Plc acted unfairly in relation to its BBL by declining to allow repayments to be made by its director from personal funds.

T is represented by its sole director.

What happened

T has a business current account with NatWest, on which it had a £2,500 overdraft facility. It also took out a £13,000 BBL in 2020. Payments were up to date as at July 2023.

When T's overdraft came up for renewal in 2023, NatWest decided not to renew it. They tried to contact T about this, by email and text.

T's director rang the bank in mid-July 2023 in response to one of their communications. He told them that, although T wasn't currently trading, he intended to keep the business open. He wanted to clear the overdrawn balance from personal funds.

NatWest declined to accept the repayment, as they said payments to T could only be made from business income.

T complained. Its director said he'd been making the monthly BBL repayments from personal funds since 2021 and no-one had ever advised him there was a problem with this. He felt he should get the BBL repayments back if the bank wouldn't accept personal payments.

NatWest did not uphold the complaint, as they said there had been no bank error. They informed T that its bank accounts would be transferred to their Recoveries team as it was no longer trading.

T's director referred T's complaint to the Financial Ombudsman. He said the bank had left him in an impossible position if he couldn't repay the overdraft from his personal funds, as T had no income.

One of our investigators looked into what had happened and didn't think the bank had acted fairly. He thought it was unreasonable for the bank to refuse the repayment of the overdraft, when they'd been letting T's director contravene their policy in respect of the BBL for two years without T being aware of it. He thought the bank should permit T's director to clear T's overdraft, allow BBL repayments to continue and remove any defaults from T's credit record. He also recommended the bank pay compensation of £350.

NatWest agreed to do this, but T disagreed. T's director thought the bank should refund all the repayments he'd made from his own resources if they weren't allowed. He also thought it was unfair that the bank had continued to charge interest on the overdraft.

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 conclusions as our investigator, for essentially the same reasons, although I have made some changes to the compensation proposed and given the bank a chance to comment on the changes.

T's position is, as I understand it, that whilst it is not currently trading and has not traded since the pandemic, its director wished to keep the company open and keep its debts up-to-date whilst he considers options for restarting its business. This seems to me to be a perfectly reasonable position and one that T is entitled to adopt, if its director so chooses.

When T's director phoned the bank to clear T's overdraft and they wouldn't let him, it seems to me that NatWest put T in an unfair position. My understanding is that if T had just paid the money into the business current account, NatWest would have accepted it as business income and not queried it, just as they had done with the funds T's director has previously provided into the current account to service the BBL. But because T told them it was personal funds, the bank refused to accept them and left T with no alternative but to default. And they have then continued to charge interest on the overdraft that they wouldn't let T repay over the past year. I don't consider this is fair.

Where a director wants to make a payment and can afford to do so, I am not aware of any legislation that prevents this. Indeed, it is widespread and established practice for directors to provide funds to limited companies via directors' loans or another suitable accounting mechanism. In the specific circumstances here, I don't think NatWest had any reason to believe that allowing the payment would be in breach of their duty of care or would expose them to any additional risk. I therefore think NatWest ought reasonably to have allowed the payment to be made.

T has argued that the bank should apply its policy consistently and therefore should not have accepted any of the BBL repayments. He therefore considers they should refund all these repayments. I don't think this would be fair outcome. I think the bank's error was in leaving T with no means to clear its overdraft, rather than in accepting the BBL repayments from its director in the past. And refunding the payments would result in T's BBL being more than three years in arrears, making a default inevitable and, in my view, fair. This would go against what T's director says he has been trying to achieve.

However, I do think T has a point regarding interest continuing to accrue on T's overdraft. If the bank won't accept personal funds, then they knew in July 2023 that the overdraft could not be repaid, so it should have been immediately transferred to NatWest's Recoveries function, where interest would have been suspended. Indeed, when NatWest first corresponded with us about this complaint in September 2023, they told us T's accounts were in Recoveries, but it appears this was incorrect.

Alternatively, if the bank had agreed to accept T's director's payment, which is what I think should have happened, then I think he would have cleared the overdraft and therefore not incurred any further interest. I am therefore going to direct NatWest to refund the interest, provided T clears the overdraft within two months of my decision.

Our investigator recommended that a payment of £350 be awarded to T as compensation for the inconvenience caused by the bank's refusal to accept payments. I am unable to award any compensation to T's director, as it is T that is the party eligible to complain to our service and the director is just its representative. But I agree with our investigator that T has been inconvenienced by NatWest's actions here. Its credit standing has been impaired, which might impact its ability to trade again in the future, and its director's time has been taken away from other activity on behalf of the company. I think £350 is fair compensation.

Putting things right

My aim is to put T in as near as I can to the position it would have been in without the bank's unfair actions. To put things right, the bank therefore should:

- Refund any interest charged since 21 July 2023 on T's overdrawn balance and let T's director know the outstanding balance to repay.
- Provided T clears the overdraft within two months, then any defaults recorded on T's credit file relating to the overdraft should be removed and the accounts should not be transferred to Recoveries.
- If everything had carried on without the bank preventing T's director from paying, BBL repayments would have continued. As it is, no BBL repayments have been made for the past year so it is now in arrears. So if T's director wishes to keep T's debts in order, T will need to make an arrangement regarding the missed BBL repayments, whilst also recommencing monthly repayments. T should be permitted to use all available Pay As You Grow options to assist in this process if it so chooses.
- T will also have incurred additional interest on its BBL due to the suspension of payments. The bank should make an adjustment for this so that T has incurred only the interest it would have paid if repayments had continued. If this calculation is too complex, the bank can refund all the interest charged on the BBL since 21 July 2023 instead. Future interest should continue as normal.
- Pay T £350 for the inconvenience caused.

My final decision

I uphold this complaint and direct National Westminster Bank Plc to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask T to accept or reject my decision before 2 October 2024.

Louise Bardell

Ombudsman