

The complaint

K a limited company, complains that Clydesdale Bank Plc unfairly declined its application for a Bounce Back Loan.

In bringing this complaint, K is represented by its director, who I refer to as Mr B.

What happened

In January 2021, K opened a business account with Clydesdale. Later, on 5 March 2021, K applied for a £50,000 Bounce Back Loan.

To progress K's application, Clydesdale wrote to K on 8 March 2021 to request proof that it had been trading before 1 March 2020 given this was a requirement under the Bounce Back Loan Scheme (the Scheme). In particular, Clydesdale asked to see bank statements and invoices.

Mr B provided a VAT registration certificate for K, his personal bank statement with another bank dating back to 2015, and a purchase order addressed to K for a cargo ship. But Clydesdale didn't think the evidence that had been provided sufficiently demonstrated K was eligible for a Bounce Back Loan. Therefore, Clydesdale declined K's application. K appealed, but Clydesdale maintained their decision. K didn't think Clydesdale's decision was fair.

K believed it met the eligibility requirements for a Bounce Back Loan and thought Clydesdale's interpretation of what amounted to trading within the Scheme rules was too narrow. And it believed Clydesdale were asking K for more information than was necessary, under the Scheme rules and more broadly. Clydesdale disagreed and so K referred its complaint to this service.

Our investigator didn't uphold the complaint. He concluded – in summary that:

- Before agreeing to the Bounce Back Loan, Clydesdale were entitled to carry out certain checks to make sure the declaration K had made in its application about the operation of its business was correct.
- Clydesdale had provided information to demonstrate how "trading" and "carrying on business" were interpreted under the Scheme rules. And the information showed that Clydesdale had interpreted those terms reasonably when considering K's application.
- Clydesdale's checks were in line with those expected under the Scheme rules and because K had failed the checks, Clydesdale's decision to decline its application wasn't unreasonable.

Mr B didn't agree with the investigator's conclusions. He said - in summary, that:

- The Bounce Back Loan Scheme rules had been designed by the government to be less stringent than usual lending processes. This was done in order to allow businesses to obtain a Bounce Back Loans through self-certification. The rules didn't require interpretation by lenders and there was no requirement to obtain evidence of trading.

- Clydesdale declined K's application on the basis of insufficient trading activities, but the investigator did not ask the bank to define trading activities and how they interpret what they deemed to be insufficient.
- Initially in December 2020 K's business account application was declined. However, K was given the opportunity to provide further mitigating evidence – including evidence of trading to support the bank's review. So, it's unclear why, shortly after presenting that evidence which allowed Clydesdale to progress K's business current account application it then became insufficient evidence to obtain a Bounce Back Loan.

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 broadly the same conclusion as our investigator and for similar reasons. I'll explain why.

The aim of the Scheme was to provide financial support to business quickly. K is right about that. And Mr B is right in identifying certain checks lenders were expected to carry out before approving a Bounce Back Loan – including, KYC, fraud and anti-money laundering.

At the heart of K's case, however, is that the checks Clydesdale carried out went beyond those I've just referred to and were therefore unjustified.

I've thought carefully about Mr B's argument that checks were already carried out when K's business account application was made. And he's explained that he'd presented evidence of trading which ensured the application was successful and by implication therefore, should have sufficed for the purposes of the Bounce Back Loan. But I don't agree.

It was, of course, a requirement under the Scheme rules that to be eligible for a Bounce Back Loan, the applicant had to be engaged in trading or commercial activity in the UK at the date of application as well as carrying on business on 1 March 2020. Mr B declared that K had been trading and at the level commensurate with the £50,000, that K wished to borrow from Clydesdale.

K became a customer of Clydesdale in January 2021. And as Clydesdale explained they needed some additional information to prove K was trading on 1 March 2020 and was therefore eligible for the loan and the amount applied for.

I am satisfied Clydesdale were entitled to carry out the checks they deemed appropriate in order to ensure the information they were provided with about K's business was indeed correct. Inevitably, because of the nature of the information that needed to be verified for the Bounce Back Loan, the scope of the checks extended beyond those that were necessary for the opening K's business current account. I do not find Clydesdale acted unreasonably when they did not simply rely on the previous checks that they had done for K business current account. I think their request for bank statements and invoices was reasonable in their attempt to corroborate the information they were provided with about the extent of K's business activities.

Mr B explained that because of the nature of K's business, it was difficult to provide the actual evidence Clydesdale requested. I've seen an email exchange, for example, between Mr B and a local authority representative in 2019 regarding an international event Mr B was intending put together on behalf of K in 2020. Unfortunately, the event didn't go ahead. Given such setbacks I can see why Mr B says it was difficult to provide such things as invoices that Clydesdale needed to see. And Mr B explained he had no bank statements more recent than 2015 that he could present to Clydesdale.

Despite Mr B's assertion that a VAT registration certificate is the gold standard relied on by the British Business Bank as proof of business activities in the UK, I don't think Clydesdale were obliged to treat the VAT registration certificate that Mr B provided as sufficient satisfaction of the checks they were required to carry out.

I understand Mr B's point that registering for VAT with HMRC is generally done by companies that are trading. I'm aware it enables a company to add VAT to their sales invoices as well as being able to reclaim VAT on purchased items. But I don't think the possession of a VAT certificate alone amounts to proof of trading if alongside it there are no sales invoices demonstrating the company has been accounting to HMRC for VAT.

I note K did also provide a purchase order to Clydesdale alongside the VAT certificate. But that purchase order related to a transaction that didn't actually go ahead. And it seemed Clydesdale didn't think it amounted to evidence of trading activity in the UK in any event.

So, overall Clydesdale didn't think K's evidence was enough to satisfy their checks. That's a decision Clydesdale were entitled to take. And in the circumstances, I don't think that was an unreasonable conclusion for them to come to.

In summary, I am satisfied that as part of their checks before approving K's loan it was reasonable for Clydesdale to ask for evidence K was trading before 1 March 2020 and to see whether it was at a level that matched the loan amount it applied for. It is unfortunate that K was unable to provide the evidence Clydesdale required. That being the case, I am not persuaded Clydesdale reached an unfair decision when they declined K's application for the Bounce Back Loan

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 K to accept or reject my decision before 26 November 2021.

Asher Gordon
Ombudsman