

## The complaint

A company, which I'll refer to as "R", complains that National Westminster Bank Plc ("NatWest") unfairly declined its application for a loan under the Coronavirus Business Interruption Loan Scheme.

One of R's directors, Mr F, brings the complaint on the company's behalf.

## What happened

R approached NatWest for a loan under the Coronavirus Business Interruption Loan ("CBIL") Scheme shortly after it was launched by the government in March 2020. The company was looking to borrow £5,000,000, which it wanted to use to pay down an existing commercial loan held with the bank to reduce its outgoings.

Mr F submitted R's application on 26 March 2020. He was contacted in mid-April, when the bank advised that the company was unlikely to be eligible for the loan it had requested. NatWest took some further information from Mr F and reviewed the application further. But on 4 May, the bank advised that R's application had been declined.

When confirming its decision in writing to R on 11 May, NatWest explained that it had declined the application for two reasons – that it was not to fund working capital or trading activities due to the impact of Covid-19 and that the loan was for an 'excluded purpose' (being the refinancing of existing debt). Mr F appealed and a complaint was also later raised, but the bank maintained its decision. It further explained that lenders had discretion under the Scheme rules as to whether an application met their risk appetite – and said that R's request hadn't met NatWest's.

R subsequently applied elsewhere for a CBIL and successfully obtained the loan it was seeking.

Mr F doesn't think NatWest acted fairly in declining the application. He says, in summary, that:

- R met the eligibility criteria as prescribed under the Loan Scheme rules, which didn't exclude debt consolidation as a purpose. The company's eligibility is further demonstrated by the fact that it secured its loan from an alternative provider.
- R wasn't looking simply to refinance its debt, but rather to put the business on a more stable financial footing by easing the increased debt burden it was under as a direct result of the pandemic – in line with the aims of loans through the Scheme.
- NatWest's comments as to risk weren't credible, given that the proposed facility was for a lower amount than the company's existing borrowing and would've been on preferable terms, and the valuation of the project that the lending was to support.
- NatWest took too long to reach its decision.

- All of this left R out of pocket, as it had to pay fees to arrange the loan elsewhere while also maintaining the higher payments on its existing commitments in the interim.

One of our investigators reviewed R's complaint but didn't think NatWest had done anything wrong. In summary, she said that while the Scheme rules didn't prohibit the use of CBIL funds for the refinancing of debt, NatWest's own criteria did. She thought the bank had the discretion to set such requirements and, having assessed R's application in line with these, didn't think it had acted unfairly. She noted that the bank had taken longer than would've been ideal to reach its decision, but didn't think this was unreasonable given the assessment it was carrying out and the broader impact on its level of service by the volume of applications it was handling and the consequences of the coronavirus pandemic.

Mr F didn't accept our investigator's view. He maintained that the prospective CBIL wasn't purely to refinance debt, highlighting that at least a portion of the loan would've been "new money" to help R cope with the impact of the pandemic. And while he still thought NatWest had wrongly declined R's application, if its policy was so clear then it ought to have reached its decision a lot sooner than it did – with the delay having caused R to incur interest on its existing commitments for longer than necessary.

With no resolution, the complaint was passed to me to decide.

### **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 and for broadly similar reasons. I'll explain why.

The rules of the CBIL Scheme didn't expressly prohibit the use of loan funds to refinance existing debt (although refinancing of debt with the same lender was subject to certain limits). But decision-making was fully delegated to the lender and NatWest had the discretion to decide whether it would approve applications for this purpose. NatWest has explained and evidenced that under its policy, it didn't allow the refinancing of existing debt. That was a decision it was entitled to make. And while R was able to secure the loan it wanted from an alternative lender, that doesn't render NatWest's decision wrong or unfair – but rather is reflective of the differences in lending appetite that each had the discretion to decide.

I appreciate what Mr F has said about the intended purpose of the loan, but the vast majority of the funds were to be used to refinance R's existing debt in one way or another. I appreciate that the need for this was a consequence of the disruption caused by the pandemic and that doing so would've put the company on a stronger financial footing – satisfying some of the Scheme's eligibility requirements and aims. Nonetheless, the company wanted to use the funds to refinance its existing debts with the bank. So NatWest declined the application on this basis. Given that I've found the bank had the discretion to decide the policy and that it then assessed R's application in line with this, there is no basis on which I could fairly say it should've acted any differently.

Mr F has queried whether NatWest approved any CBIL applications involving an element of refinancing, but I don't think I need such information in order to decide whether the bank dealt with R's request fairly. I'm satisfied the bank had a standard policy in place, against which it assessed applications – and as it handled R's request in accordance with that policy, I think it treated the company fairly.

I note Mr F's comments on those from the bank about the decision being based on its 'risk appetite'. I suspect this was merely an unclear explanation of the bank's position when responding to the complaint, given that is the only mention of 'risk' I've seen – its *lending* appetite, more broadly, was the issue. In any event, the application was legitimately declined on the basis of the intended use of the funds, so there is no need for me to consider this aspect any further.

Mr F has suggested that NatWest ought to have made a counterproposal to R to provide lending for any amounts not being used for refinancing. I don't think it's unreasonable that the bank did not do so in the circumstances here, given the demands on it at the time in needing to process, at pace, large volumes of applications for lending under the government-backed loan schemes. And R was free to submit a revised application in light of the bank's decision, for which it knew the reasons, if it wished.

I've also reviewed the time it took NatWest to reach its decision on R's application. The request was submitted on 26 March 2020, with the decision to decline it communicated to Mr F around six weeks later. That said, I note that the bank had given Mr F an earlier steer as to the company's likely ineligibility when speaking to him in mid-April, but that he opted to pursue the application to a formal decision. In any event, I don't think that the six-week timeframe was particularly unreasonable, bearing in mind the nature of F's request and the further information it needed to gather to assess it, that the Loan Scheme had only recently been launched, and as the bank would've been dealing with a large number of applications in addition to managing the wider consequences of the developing pandemic.

Taking all of the above into account, I don't think NatWest dealt with R's CBIL application incorrectly or unfairly – so I'm not requiring that it take any action in response to this complaint.

### **My final decision**

For the reasons set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask R to accept or reject my decision before 30 August 2022.

Ben Jennings  
**Ombudsman**