

The complaint

Mr H is a sole trader. He complains that National Westminster Bank Plc (“NatWest”) twice cancelled and recalled funds it had provided him under the Bounce Back Loan Scheme.

What happened

Mr H banked with NatWest. He applied to the bank for a Bounce Back Loan of £25,000 on 6 May 2020.

NatWest initially approved the application and the loan was drawn down into Mr H's business account on 22 May. But on review, the bank reversed its decision. It terminated the agreement and removed the funds from Mr H's account on 1 June. This ultimately left a debit balance of around £765 on the account.

When Mr H queried things with NatWest, the bank suggested that it had made an error in recalling the funds and invited him to reapply. So Mr H submitted a second application on 4 August 2020, but this time he asked for £45,000.

NatWest again approved the application initially and on 8 September the loan was drawn down into a Bounce Back Loan feeder account, which had been set up for Mr H as he was in the process of switching his business account to another provider. However, after conducting a further review, the bank again decided not to provide the loan and terminated the agreement. It recalled the funds on 4 December 2020, with none having been utilised.

Mr H complained to NatWest about its actions. He thought he was eligible for the loan and didn't think the bank had acted fairly in recalling it, particularly after it had invited him to apply a second time. He said that he'd placed a £20,000 order with a supplier in reliance on receiving the loan, which would've generated turnover of £200,000. He also said that the bank's actions in recalling the first loan had left an overdrawn balance, to which interest was being added and that was now subject to recovery action. And he said the matter had severely impacted his business and personal life – causing significant stress, problems in his marriage and thoughts of suicide.

NatWest didn't uphold Mr H's complaint. It said that it had, ultimately, identified that it shouldn't have provided a loan to Mr H and so had correctly terminated the agreement.

When Mr H subsequently referred the matter to us, NatWest said that it had made an error in how it handled the termination of the initial £25,000 loan. While maintaining that the loan was correctly defaulted, the bank offered £150 compensation for the distress and inconvenience it had caused Mr H by using the funds held in his business account to settle the debt. It also offered to refund the interest that had accrued on the debit balance.

As Mr H didn't want to accept the bank's offer, one of our investigators reviewed the complaint. He said that the Bounce Back Loan agreement allowed NatWest to terminate the loan in certain circumstances and that it had been reasonable for the bank to do so here. But he thought that NatWest should increase its offer of compensation to £300, to reflect the

level of distress and inconvenience caused by the bank's handling of the first loan and the subsequent debt recovery action that flowed from its termination.

NatWest accepted our investigator's view, but Mr H didn't. So the complaint was passed to me to decide.

My provisional decision

I issued a provisional decision on the complaint last month, in which I explained that I didn't think NatWest had handled Mr H's applications for a Bounce Back Loan as well as it should have but that it had been reasonable for the bank to decide not to provide him with a loan. I said:

Under the rules of the Bounce Back Loan Scheme, an applicant could borrow up to a maximum of 25% of their turnover during the calendar year 2019. Mr H initially asked to borrow £25,000 and declared when making his application that his turnover during 2019 was £100,000. In his second application, he asked to borrow £45,000 based on a declared turnover of £200,000.

On review, NatWest wasn't satisfied that Mr H was eligible for the loans he'd requested. And from the information I've seen, I think that conclusion was reasonable. The turnover running through his business account with NatWest amounted to far less than either of the amounts declared in his applications. And he hasn't provided a copy of his tax returns, despite our requests, to confirm the position.

I understand from what Mr H has said that he may have used an estimated turnover figure when applying. But only businesses established after 1 January 2019 could use an estimate. As Mr H had been trading prior to this date, he was required to use his actual turnover figure for the calendar year 2019.

So from what I've seen, I don't think Mr H was eligible for either of the loans that he requested and obtained from NatWest. It is right, then, that NatWest declined to provide them in the end.

There is, though, a legitimate question as to why NatWest approved each application and agreed to provide Mr H with a loan – only to then unwind things sometime later.

Looking at the first application, I don't think NatWest did anything wrong in initially approving the loan. In keeping with the rules of the Scheme, the bank relied on the information that Mr H had provided when considering whether he met the applicable eligibility criteria. Mr H had self-certified that he did and declared that the information he'd provided was accurate. NatWest only had cause to question Mr H's eligibility when subsequently conducting a review.

Once NatWest determined that Mr H was ineligible for the loan he had obtained, I think it was reasonable for the bank to take steps to recover it. Under the terms and conditions, the bank was entitled to terminate the loan and demand its immediate repayment in certain circumstances. This included where the bank deemed any material information given by Mr H to have been inaccurate. I think that was the case here, for the reasons I've explained above.

Under the terms and conditions of Mr H's account and the loan agreement, NatWest also had the "right of set off" – meaning it was entitled to use any credit balance held in his current account with NatWest towards the repayment of amounts due under the

loan agreement. So I don't think NatWest actually did anything wrong in removing the funds from Mr H's account and using these to repay the first loan in the manner it did.

As I don't think NatWest was at fault for approving the loan in the first place or recalling it, it follows that I don't think it is responsible for any impact this had on Mr H or his business. So I'm not intending to require the bank to compensate Mr H for any of the effects that these issues may have had.

While I think NatWest was entitled to use the credit balance in the account to pay down the loan, I don't think it was wholly reasonable to take the account into an overdrawn position when doing so. As there weren't sufficient funds in Mr H's account to cover the £25,000 loan that needed to be repaid, the bank's removal of this amount left a debit balance – on which interest was then charged. Instead, the bank could've issued a demand for the relatively small amount left owing on the loan after the credit balance had been applied to it.

To put this right, I think it is fair that NatWest writes off any interest that Mr H has incurred on the debit balance on the account – as it has agreed to do. This ensures that he won't have suffered any financial loss as a result of what I think the bank did wrong.

Given the outstanding debit balance on the account, it was eventually defaulted and debt recovery agents were appointed by the bank. I appreciate that this will have been upsetting for Mr H. But even if NatWest had handled things as it should've done, there was always going to be an outstanding balance for him to pay one way or the other as there were insufficient funds in his account to fully repay the Bounce Back Loan. So I don't think his position was much different than it otherwise would've been in this respect.

NatWest did, though, make a further error when suggesting that Mr H make a second application. This seems to have been on the basis that the termination of the first loan was the result of an administrative error, which itself seems to have been a mistake. That error was then compounded by NatWest's approval of the second loan application, when it ought reasonably to have declined this application given what it had found after its review of the previous one.

I don't think this caused Mr H any financial loss. The funds had remained suspended after they were drawn down and the transaction was reversed without any other charges or interest being applied. But it did put Mr H to some avoidable inconvenience – both in making the application itself, when it was doomed to fail, and then in following up on the matter when the funds weren't released as he reasonably expected.

Taking all of the above into account, I also think it would be fair for NatWest to pay Mr H £300 to compensate him for the inconvenience caused by the way it recovered the first loan and its instigation of the second application.

NatWest accepted my provisional decision. Mr H didn't respond.

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, and with no further information or evidence for me to take into account following my provisional decision, I've not seen any reason to reach a different conclusion. So this final decision simply confirms my provisional findings, as set out above.

My final decision

I uphold this complaint in part and require National Westminster Bank Plc to:

- Write off the interest that the debit balance on Mr H's account has incurred to the date of his acceptance of my final decision; and
- Pay Mr H compensation of £300.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 15 August 2022.

Ben Jennings
Ombudsman