

## **The complaint**

Mr M is a sole trader. He's unhappy with how Lloyds Bank PLC handled his application for a loan under the Recovery Loan Scheme.

## **What happened**

In July 2021, Mr M applied to borrow £25,000 from Lloyds under the government-backed Recovery Loan Scheme.

Over the months that followed, Mr M contacted Lloyds on a number of occasions to chase up progress. With the application still pending, he raised a complaint about the delay in December 2021.

Lloyds apologised for the delay and any inconvenience this was causing, and paid Mr M £100 by way of compensation. The bank said it couldn't see what had caused the hold-up, beyond human error, noting that Mr M had submitted the financial information it had asked him for.

The application was subsequently reviewed and, ultimately, declined in February 2022. In its email of 3 February to Mr M, Lloyds said its decision was based on uncertainty as to whether the repayments would be affordable for him.

Mr M doesn't think Lloyds handled his application fairly. He says, in summary, that:

- The bank's decision to decline his application was unfair, as it was based purely on the profitability of the business and overlooked the challenging economic circumstances of the time – for which he needed the financial support of the loan.
- He had been assured by a relationship manager at the bank that he was eligible for the loan and that all was in order with his application, only for the request to be declined on affordability grounds.
- The relationship manager lost the information that Mr M submitted, causing further delay to the process and requiring Mr M to send things in a second time.
- It took too long for Lloyds to reach its decision. And the bank put him to unnecessary trouble – and expense – in having to instruct accountants to prepare the information it asked for, if it was always going to decline the application on affordability grounds.

One of our investigators reviewed Mr M's complaint and thought it should be upheld in part. He didn't think Lloyds had done anything wrong in declining the loan application, or in asking Mr M to provide certain information in order to reach that decision. And he couldn't see that the bank had given Mr M any firm assurance that the loan would be approved along the way. But he thought it had taken too long for the bank to reach its decision, with the delay causing Mr M some avoidable distress and inconvenience in having to chase things up over a period of several months. So he recommended that Lloyds pay a further £300 compensation.

Lloyds accepted our investigator's view but Mr M didn't. He didn't think the compensation award fairly reflected the impact that the matter had on him and his business, and highlighted the costs he'd incurred in obtaining information from his accountant along with a copy of his credit file. And he didn't think that the full extent of his interactions with Lloyds during the process had been taken into account, believing that Lloyds had made a number of false promises and left him feeling like a "laughing stock". So he asked that an ombudsman review the matter, and it 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.

Under the rules of the Recovery Loan Scheme, lenders were entitled – and expected – to assess the viability of the lending proposition. Applications were still subject to affordability and creditworthiness assessments in a similar way to "conventional" loans, with lenders retaining the discretion to consider requests in line with their usual underwriting policies.

Lloyds has explained and evidenced that it declined Mr M's application on the basis of affordability concerns. I've looked at the basis of its decision and I think it was reasonable, based on the information Mr M provided about his business's income and expenditure and his existing level of indebtedness.

I appreciate why Mr M is unhappy at being declined access to the government-backed financial support that he was seeking in order to help his business during the difficult times brought about by the pandemic. I can see why he'd want the bank to focus more on the *potential* earning and profitability of the business if supported by the loan, rather than base its assessment on past performance. But I can see that the bank did review and consider the projections that Mr M provided. And ultimately, Lloyds had a level of discretion as to how it would assess applications, and I don't think the way in which it factored in the past performance of Mr M's business and his existing level of indebtedness was unfair – or in contravention of the aims or rules of the loan scheme – even in consideration of the unprecedented circumstances of the time.

Taking all of this into account, I don't think Lloyds did anything wrong in declining Mr M's loan application.

Mr M has said that the relationship manager he dealt with declined to provide a reason for the bank's decision when asked. I've not listened to a recording of the conversation in question, but I don't think I need to. Even accepting what Mr M says, Lloyds informed Mr M of the reason when providing its decision to him by email, being affordability concerns – which was as much detail as I think the bank needed to offer. While it's regrettable if this wasn't explained to Mr M when he asked in a separate conversation, I think he was given sufficient information through other channels to understand the basis of the bank's decision.

Mr M has also queried why Lloyds took so long – and put him to the trouble of submitting various documents in support of his application – if it was always going to decline his request. While the application evidently took too long (which I'll come on to below), I don't think the outcome of the application was a foregone conclusion. In order to fairly assess Mr M's application, Lloyds required some more detailed information about his business – none of which appears to be out of the ordinary for such a loan application, being the business's accounts, Mr M's credit file and projections for the year ahead.

I've carefully considered whether Lloyds could've reached its decision on affordability grounds without requiring Mr M to submit this additional information. And perhaps it could've

done. But at the same time, I think it's fair to suggest that Mr M would've wanted the bank to consider all angles before reaching a decision. And asking for this information enabled Lloyds to fully review the position – including by reference to Mr M's projected future performance – and give the application the best possible chance of approval.

I've not seen that Lloyds guaranteed the application would be approved, and by its nature it would've been self-evident that it was subject to the bank's assessment and satisfaction. Mr M has described being told that he was "eligible", which may have been the case – but being eligible doesn't automatically mean that the loan would be approved. The same is true of the application "looking good" as Mr M has recalled, which could be as much about the state of its completeness rather than its prospects of approval.

So I think it was up to Mr M to decide whether he was happy to take the time and trouble – and incur any applicable costs – in obtaining the information Lloyds requested, in the knowledge that the application may not be approved. At the same time, I would note that we've asked Mr M to evidence any additional costs he incurred in providing this information for Lloyds and he has declined to provide this.

Where Lloyds did make errors, however, was in the progression of the application. Mr M submitted the request on or around 9 July 2021, but only received the bank's decision on 3 February 2022. While some applications may legitimately take this long, that can't be said of Mr M's request. There were evidently periods of inactivity by the bank, which noted in its response to Mr M's complaint that there were no apparent reasons for things to take as long as they did beyond human error. It was only when Mr M first raised his complaint in December 2021 that the bank made any meaningful progress with the application.

While the application was pending and with no meaningful update from Lloyds, Mr M understandably chased the bank up on a number of occasions – calling to enquire as to progress, having to submit some documentation more than once and ultimately raising a complaint in a bid to move things forward. This put Mr M to some avoidable inconvenience, and made the process more stressful than it needed to be – while attending to the running of his business during what was an already difficult time for him personally and professionally. It's right that he's compensated for this. To that end, I also think that the payment of an additional £300 – on top of the £100 that Lloyds has already paid – is a fair way to compensate Mr M for the distress and inconvenience he was caused.

I appreciate that Mr M thinks the compensation should be higher. And I've thought carefully about this in light of his comments, particularly about how he says Lloyds' actions left him feeling. I can see how the delays and apparent lack of care would've been disappointing and disheartening. But I've not found that the bank said or did anything to belittle or disparage him in the manner he's described. And I've not seen that the shortcomings in how Lloyds handled the application caused Mr M any financial losses, or affected his reputation. So while I'm sorry to disappoint Mr M as I know this isn't the answer he was hoping for, I think the additional £300 that Lloyds has now agreed to pay him is a fair way to resolve this complaint.

### **My final decision**

For the reasons I've explained, I uphold this complaint in part and require Lloyds Bank PLC to pay Mr M £300 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 27 July 2023.

Ben Jennings  
**Ombudsman**