

The complaint

A company, which I'll refer to as "T", complains that National Westminster Bank Plc ("NatWest") mishandled and unfairly declined its application for a Bounce Back Loan.

The complaint is brought by T's director, who I'll refer to as "Mrs S".

What happened

Mrs S wanted to obtain a loan for T from NatWest under the Bounce Back Loan Scheme ("the Scheme") shortly after its introduction on 4 May 2020.

T didn't hold an account with NatWest at the time and needed one before it could apply to the bank for the loan. T applied for a business current account on or around 12 May. After some delay, the application was accepted and NatWest opened an account for T on or around 28 August 2020.

On T's behalf, Mrs S then applied to NatWest for the Bounce Back Loan. T made a number of requests to NatWest, each of which was declined.

Initially, NatWest understood that Mrs S was attempting to obtain a loan for herself – rather than T – in connection with her separate sole trader business, for which the bank had already provided her a Bounce Back Loan. A second attempt was declined on the basis of it being a duplicate of the first.

When confirming its decision to decline a subsequent application on 11 November 2020, NatWest said that T hadn't been trading as of 1 March 2020 – meaning that it didn't meet the Scheme eligibility criteria. But when responding to a complaint from Mrs S about how it had handled things, NatWest said that T didn't meet the bank's own eligibility criteria – as it was only accepting applications from customers who'd banked with it prior to 4 May, and T had opened its account after this date.

Mrs S didn't think NatWest's latest position was fair. She said she'd been trying to open an account for T since February and had, in the meantime, been processing T's transactions through her personal account with the bank. So she thought that ought to have satisfied NatWest's requirements. In light of her comments, the bank agreed to reconsider the application but only if it could see evidence that T had been trading prior to the opening of its NatWest business account.

Mrs S submitted some additional documentation in an effort to evidence T's trading activity, but NatWest advised on 22 January 2021 that its decision remained unchanged. A further application was also declined on 22 February 2021, which NatWest again advised was because it didn't think T was trading on 1 March 2020.

Mrs S doesn't think NatWest treated T fairly. In summary, she says T was eligible for the Bounce Back Loan and NatWest hasn't provided a valid reason for its decision to decline the company's request. The company was trading at the requisite time, and met the bank's requirement to have been trading through an account held with NatWest prior to 4 May 2020

through its use of her own. And she doesn't think it was fair for T's loan application to fail on the basis that it didn't hold an account at the right time, given that this was the result of delays on NatWest's part. She's also unhappy with the level of service she received in connection to the applications, which she says were subject to unacceptable delays and about which she received misinformation.

NatWest has accepted that there were delays in processing T's account application, for which it has already paid the company £100 compensation. The bank has also acknowledged that it should have told Mrs S sooner – when initially declining T's loan application – that it was only accepting applications from existing customers as of 4 May 2020, and therefore that T wasn't eligible under the bank's criteria. It has offered a further £300 compensation for the impact this had. But it maintains that its decision to decline the loan application was correct, on the basis that T didn't bank with it at the requisite time and, in any event, hasn't evidenced that it was trading at 1 March 2020.

My provisional decision

I issued a provisional decision last month, explaining why I didn't intend to require NatWest to take any further action beyond paying the £300 compensation it had already offered. I said:

I should start by saying that I can see why Mrs S would feel that T has a strong case in terms of demonstrating that it met the core eligibility criteria for a Bounce Back Loan. So I understand her strength of feeling over the matter. But ultimately the question for me to decide here is whether NatWest's decision to decline T's application was *reasonable* – whether or not I agree with it or whether another decision could also, reasonably, have been reached.

The context for this is that under the Scheme rules, all lending decisions were fully delegated to the lenders. So NatWest had the discretion to decline an application if it didn't wish to lend. I'd expect NatWest to have exercised this discretion fairly and reasonably. Having carefully considered the reasons behind its decision to decline T's application, I think it did so here. I'll explain why.

To be eligible for a Bounce Back Loan, applicants had to meet the criteria set by the British Business Bank (the government-owned bank responsible for administering the Scheme). Of relevance here, this included the following requirement as set out on the BBB's website:

“The business is engaged in trading or commercial activity in the UK at the date of the application, was carrying on business on 1 March 2020 and has been adversely affected by coronavirus (COVID-19)”.

NatWest wasn't persuaded that T was carrying on business on 1 March 2020. Although the company was incorporated before this date, this doesn't automatically mean it was trading. T's recent incorporation meant that the types of documentation that the bank would typically review to verify this – such as a tax return, VAT document or accounts – weren't available. The company didn't have its own bank account, so there wasn't a statement in T's name that evidenced its activity either.

I can see that Mrs S had run some transactions through her own account with NatWest in respect of a prospective transaction for T. And that information was presented to NatWest when Mrs S sought to challenge its decision. I accept that these transactions were for T's benefit and that they demonstrated some level of trading activity. But at the same time, I can see why NatWest didn't consider this

sufficient evidence, given that it fell short of its standard requirements. And ultimately, there remained a further issue of the company's turnover.

The issue of turnover is relevant in two ways. Firstly, it speaks to the question of whether T was carrying on business. T hadn't generated any revenue prior to 1 March 2020 or before its initial loan application. I think it is open to debate as to whether the generation of turnover was required in order to satisfy the Scheme requirements. And the use of various terms, seemingly interchangeably – "carrying on business", "commercial activity", "trading activity" and "trading" – complicates matters further. It could be argued that the activity itself – regardless of whether it had yet yielded any turnover – was sufficient. Ultimately though, I think the absence of any turnover was reasonable grounds for NatWest to consider that the company didn't meet this aspect of the Scheme criteria.

In any case, the second way in which turnover is relevant is because the amount an applicant could borrow was dependent on their turnover. Businesses could borrow up to 25% of their turnover (during the calendar year 2019). While businesses established after 1 January 2019 – as T was – could use an estimated figure, lenders weren't obliged to accept any figure that was submitted.

T applied for different amounts and used different turnover projections when doing so. But the lowest amount it sought was £40,000. So it needed a turnover of at least £160,000 to be eligible for this. While accepting both that T was entitled to use a projected figure and that it did so in good faith, I think NatWest would've been within its rights to decline the application on the basis that it had little to verify this projection as accurate. The company had no track record to substantiate this projection. It gave different projections to the bank, varying by almost 50%, which do cast some doubt as to their reliability. And as things turned out, I understand that T didn't actually generate the level of turnover it projected either.

NatWest has also said that T's application was declined on the basis that the company didn't hold an account with it at the requisite time. Lenders were entitled to decide the basis on which they would accept Bounce Back Loan applications, and NatWest wasn't willing to lend to anyone that hadn't banked with it before the Scheme was launched. That also would've been reasonable grounds for the bank to have declined T's request. Mrs S's longstanding personal relationship didn't have a bearing on this, as it was T who was applying for the loan. And I've not seen that T submitted an account application prior to the 4 May 2020 cut-off date, so I don't think it was down to a fault on NatWest's part that the company didn't hold an account with the bank at the requisite time.

On review, NatWest agreed to waive this requirement and undertook a manual review of T's application in an effort to help. But it wasn't satisfied of T's eligibility and so maintained its decision. Given all I've said above, I think that was reasonable. The bank confirmed its decision to T's last application on 22 February 2021, with the Scheme remaining open until 31 March. So I don't think NatWest's actions deprived T of the opportunity to access the Scheme either, as the company was free to apply elsewhere (as it had also been after each of the applications had been turned down).

The position has been complicated somewhat by NatWest's submission to us, in which it said that T's applications had been declined as the company was already banking with another provider. Mrs S has understandably queried this, being the first she had heard of it. But I don't think this is a wholly accurate description of the bank's position. The submission goes on to explain that the application was declined as NatWest wasn't accepting applications from customers who opened their account

after 4 May 2020 and – regardless of that – there was no evidence that T was trading at the requisite time. I think the bank’s decision to decline the application was, ultimately, due to the fact it wasn’t satisfied T met the eligibility criteria as described above.

I understand why Mrs S feels that NatWest – and, in reviewing this complaint, this service – are subjecting T’s eligibility to a greater level of scrutiny than it ought reasonably to have been at the time of its initial application, and looking for reasons to find fault with it. I don’t believe that to be the case. While it is fair to say that lenders weren’t required to conduct the level of checks that have been applied to T’s application, these have only come about in an effort to assist T rather than to frustrate it. Had NatWest maintained its decision in line with the automated processes it typically followed, I think it would simply have declined the application at the outset on the grounds that T didn’t hold an account with it at the requisite time, or on the basis that it couldn’t verify when the company started trading or the level of turnover it had declared. So I don’t think T’s position has been prejudiced by the bank’s review (or ours), or that it has been put to an unreasonable burden of proof in the process.

I do, however, agree that some aspects of NatWest’s handling of T’s applications fell below an acceptable standard. It took longer than necessary for NatWest to process T’s account application, putting the company to some inconvenience in having to chase things up. The bank has already paid T compensation of £100 for this, which I think is fair. In respect of the Bounce Back Loan, T’s first two applications were declined on an incorrect basis – with the bank having considered Mrs S was seeking a second loan in her own name, which necessitated a third application. All of this put Mrs S, as T’s director, to some further avoidable inconvenience – having to engage in additional correspondence, including by way of complaint, to resolve matters. It’s right that T is compensated for this. To that end, I think the £300 that NatWest has already offered is a fair amount and in line with what I would have otherwise awarded.

I understand Mrs S believes that T was caused further inconvenience by what she considers to be a lack of transparency as to its reasons for declining the subsequent applications, and its shortcomings in how it’s provided information both to her and our service. But Mrs S was advised that the application was ultimately unsuccessful as NatWest wasn’t satisfied that T was trading as of 1 March 2020, which was as much as the bank needed to disclose. I appreciate that the issue with T banking elsewhere may have given Mrs S particular cause for concern as to the basis of the bank’s decision, but as I’ve explained I don’t think that was a pertinent factor in the outcome here. And I don’t think there have been any other errors on NatWest’s part that have unfairly impacted T’s applications, their outcome, or Mrs S’s ability to appeal them such that any further compensation is appropriate.

NatWest responded to say that it agreed with my provisional decision, but considered that confusion over T banking with another provider arose only because Mrs S stated this in her original application and not because of a bank error.

Mrs S responded to say that she didn’t accept my provisional decision and raised a number of points for me to take into account.

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.

Within my provisional decision, I said that lending decisions were fully delegated to lenders under the Scheme rules – and so NatWest had some discretion over whether or not to accept an application. Mrs S hasn't explicitly challenged this, but has said that she's seen no evidence of it. I appreciate that there is – and was – limited information in the public domain as to the finer detail of how the Scheme was to work and, to that end, the way lenders were entitled and expected to assess applications. But I can confirm that the rules of the Scheme – shared by the BBB with the accredited lenders – explicitly stated that application processing and all subsequent lending decisions were fully delegated to the lender. There was no obligation on NatWest to make this point any clearer than it did to applicants, as Mrs S has suggested in her response to my provisional decision.

Fairness dictates that such discretion must not be unquestionable or without limitation. I set out in my provisional decision the reasons why I thought NatWest had fairly and reasonably exercised its discretion to decline T's application. I've reflected on this in light of Mrs S's response, but haven't reached a different view. I'll explain why Mrs S's further points haven't changed my mind.

It is worth me highlighting at this juncture that neither my provisional decision nor this final decision covers each and every point raised by the parties. I can assure each of them that I've considered everything they've said and submitted, but my findings concentrate on detailing the matters I deem most relevant to how I've reached my decision – in keeping with the informal nature of our service.

Firstly, I note that Mrs S remains sceptical as to NatWest's rationale for declining T's application. She suggests that the bank "secretly" declined the request on the basis that T was also banking with another provider. But I still think the application was declined for the reasons I've described, as the bank set out in its letters to Mrs S of 11 November 2020 and 22 February 2021 – in which it said that the applications considered around these times were declined on the grounds that "*your business was not trading as of 1 March 2020*". The bank's internal records further corroborate this, noting that T was "not a trading business" when completing its review on 11 November.

Mrs S disputes that NatWest wrote to T on 11 November 2020 as I've said, and that it wasn't until January 2021 that NatWest said it was declining T's application on the grounds that it wasn't trading at the requisite time. But I've seen a copy of this letter, addressed to Mrs S at the company's registered address at the time (a copy of which has also been shared with Mrs S previously). It's regrettable if Mrs S didn't receive this. But even if she didn't, that doesn't seem to be down to a fault on the bank's part.

I noted in my provisional decision that I thought NatWest had complicated matters when telling us that T's applications had been declined as the company was already banking with another provider (which in turn had been shared with Mrs S). The bank suggests in its response to my provisional decision that confusion only arose because Mrs S said T held an account elsewhere. But T holding a bank account with another provider isn't the issue, and isn't in dispute. Confusion arose due to NatWest saying that this was the reason it declined T's applications, when it wasn't.

NatWest's letters to T and its contemporaneous notes make clear that its principal reason for declining T's applications was because it didn't consider that T had sufficiently evidenced that it met the requirement to have been carrying on business prior to 1 March 2020. I think that view was reasonable. On the one hand, T was incorporated before this date and Mrs S was able to show that some transactions had been carried out in connection with T's prospective trading, as I described in my provisional decision. On the other, however, the

company had yet to generate any turnover – indeed, the means through which it was to generate its turnover had yet to even be acquired. As I explained in my provisional decision, for these reasons I think it was reasonable for NatWest to consider that T didn't meet the Scheme requirements to have been "trading" at the requisite time.

Mrs S has noted that I made no reference to a debenture that was in place and of NatWest's knowledge of this when considering T's application. I don't think the presence of a debenture is particularly persuasive evidence of the sort of trading activity that I've described as being lacking here – in that holding debt and/or providing security don't equate to trading or generating an income. And it certainly doesn't speak to trading prior to 1 March 2020 as the debenture was only completed *after* this date.

Regarding the issue of turnover, Mrs S has highlighted what I agree to have been an error in how I phrased one aspect of my provisional decision. I said that T hadn't generated any revenue prior to 1 March 2020 *or before its initial loan application*. But Mrs S had already explained and evidenced that money due to the company had been received into a personal account in May 2020 – predating its first loan application. I'm sorry for this error but it doesn't affect my findings. This is because it remains the case that this revenue, being generated *after* 1 March 2020, doesn't show that T was trading before this date – being the basis of the bank's decision to decline the application.

Mrs S has highlighted that "new" businesses were allowed to apply for a Bounce Back Loan under the Scheme rules, with a requirement only to have been "established" by 1 March 2020 (with the Scheme being launched on 4 May 2020). So a business which had only been running for a couple of months was eligible to apply. I don't dispute that. But the date on which a business was established was only one of a number of criteria. There was also the requirement to have been carrying on business. So the fact T existed on or before 1 March 2020 wasn't, in and of itself, enough for it to be deemed eligible for the loan – or for NatWest to be obliged to have provided it with one.

I also described in my provisional decision that businesses could only apply for a loan up to 25% of their turnover. "New" businesses – i.e. those established after 1 January 2019, like T – could use an estimate. But lenders weren't obliged to accept any figure that an applicant provided. Even if I were to accept that T was trading at the requisite time, I still think NatWest would have been entitled to decline the application on this basis for the reasons given in my provisional decision.

I understand Mrs S is concerned that I am proposing another reason – beyond those given by the bank – for why the application could have failed, especially having also said that it is not for me to substitute the bank's decision for my own. But I'm not substituting one decision for another. Rather I am explaining why, even if I were to accept one of Mrs S's arguments, I would not ultimately be led to reach a different conclusion on the complaint as a whole.

I also said in my provisional decision that NatWest was entitled to decline T's application on the basis that the company didn't fulfil the requirement to have banked with NatWest from 4 May 2020 or earlier. I accept Mrs S's comment that the bank's policy may not have been quite as binary but, nonetheless, I believe it is a valid reason by which NatWest could have rejected T's application (in that T didn't have the requisite pre-existing relationship with the bank and, as I said in my provisional decision, Mrs S's own personal relationship with the bank wouldn't have satisfied the bank's requirements). In any event, NatWest agreed to waive this requirement in an attempt to help T. It could simply have declined the application at the outset but chose not to do so, which I highlighted to demonstrate my view that the bank wasn't out to deliberately frustrate Mrs S's attempts to obtain a loan for the company and rather approached the matter in good faith. Put simply, I can't see why NatWest would

have taken the time and trouble to treat T's application as an exception and to conduct a manual review of T's eligibility if it had no intention of ever lending to T.

I take Mrs S's point that it wouldn't have been fair for NatWest to rely on this criterion once it had agreed to waive it – but it didn't do this. It said it would waive the requirement *if* it was satisfied that T met the Scheme eligibility criterion to have been trading prior to 1 March 2020, which ultimately it wasn't.

I set out in my provisional decision that I thought some aspects of NatWest's handling of T's applications fell short of an acceptable standard and I still consider that to have been the case. But I still don't think NatWest's actions prevented T from applying elsewhere. And while I've taken into account everything Mrs S has said in respect of the additional inconvenience she believes T was caused by errors on the bank's part, I don't think that the company was impacted to such a level that any further compensation is warranted.

My final decision

National Westminster Bank Plc has made an offer of £300 to resolve T's complaint and for the reasons I've explained, I think that is a fair way to put things right.

My final decision, therefore, is that National Westminster Bank Plc must pay T compensation of £300.

Under the rules of the Financial Ombudsman Service, I'm required to ask T to accept or reject my decision before 25 May 2023.

Ben Jennings
Ombudsman