

The complaint

A company which I'll call N complains that National Westminster Bank Plc ('NatWest') unfairly defaulted its loan.

The complaint is brought on N's behalf by its director, Mr O.

What happened

N took out a £15,000 business loan with NatWest in March 2020. It then took out a Bounce Back Loan (BBL) for £36,000 in May 2020.

N told us:

- In October 2020, it contacted NatWest to apply for a payment holiday on its loan due the impact of the Coronavirus pandemic.
- It wanted to change the term of the loan to seven years to make the repayments more affordable. NatWest had initially quoted a rate of 10.4% for this refinance borrowing, so it sent the various emails and information the bank had requested to proceed with the loan, but despite repeatedly contacting the bank by phone and email over several months, it didn't get a response.
- In December 2021, it emailed NatWest to ask for help amending the terms of the BBL – which it was able to do using the Pay As You Grow ('PAYG') options under the BBL scheme. This was followed up in January 2022, but the bank didn't call back as agreed. The bank's system was showing incorrect information about the BBL balance so N thought it couldn't make the changes it needed to.
- In February 2022, without warning, it received formal demands for both loans. The bank said they didn't receive any of the previously requested correspondence from N, so it resent this along with proof it had been provided when requested, but NatWest still refused to remove the formal demand or proceed with the refinance loan it had discussed.
- The BBL was in arrears because the bank had closed its loan servicing account where the payments needed to be made from, and it was unable to open a new account to make any repayments.
- NatWest eventually offered £75 then a further £150 compensation for the poor service, but this doesn't cover the time and inconvenience caused by the bank's actions.

NatWest told us:

- They attempted to contact N in October 2021 to discuss the company's accounts for the requested loan refinance which was quoted on a rate of 10.4%.
- They then wrote to N in November and December 2021, and January 2022 about the affordability for the refinance loan but didn't receive a response.

- As no formal repayment plan had been agreed with N, formal demands were issued for both loans in February 2022.
- They acknowledged they received some correspondence from N which hadn't been acknowledged and at times their customer service could have been better. So, they had paid a total of £225 compensation for the inconvenience caused.
- They couldn't open the BBL servicing account for N as this was done online through the bank's main website and the company would have to do this itself.
- Both the BBL and the refinance loan were still in arrears, but it was possible the original formal demands had been left in place by mistake after the emails from N with the requested financial information had been located.

Our investigator recommended the complaint be upheld in part. She said the compensation paid by the bank wasn't sufficient for the impact on N and should be increased by a further £125. However, she said NatWest had explained they'd reviewed the financial information from N and based on what they'd seen they weren't comfortable to provide the loan. The investigator said this was a decision the bank was entitled to make, and this service couldn't direct the bank to offer a new loan to N.

N didn't agree. It said when the loan had been discussed at no point had NatWest said this was dependant on the company's financial information. It also said the BBL was in arrears as the bank wouldn't open it the servicing account required – despite this being requested for over a year - so it hadn't been able to make the repayments.

I issued a provisional decision on 8 August 2023. I said the following:

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 decided to uphold it in part. Briefly, I consider:

- NatWest did not properly assess N's request to refinance its loan. The bank misplaced the documentation N provided, then failed to clearly explain what they needed from N to make their lending decision.
- NatWest should not have issued a formal demand in respect of the loan. If everything had happened as it should, NatWest would not have recorded any adverse credit information at all against B in respect of the loan.
- NatWest should not have issued a formal demand for the BBL in February 2022. But even if everything had happened as it should, I still think N would have experienced difficulties in making payments towards the BBL – so some (but not all) of the adverse credit information NatWest has recorded in respect of the BBL is fair.
- To put matters right, NatWest should restructure both the loan and the BBL to put N in the position it would have been in if NatWest had acted promptly. It should also correct N's credit records and make a payment to compensate N for the inconvenience it has suffered.

I give more details below.

Loan refinance

N says that NatWest has treated it unfairly by not providing a refinancing loan based on the 10.4% interest rate and associated terms which were discussed over the phone. It says during the discussion the bank didn't say that the new loan would be dependent on the company's financial information. I've asked NatWest for a copy of

the call where the loan was discussed, but they haven't been able to provide this. However, I don't think this makes a difference here.

I say this because, N's reason for contacting NatWest about refinancing the existing loan was due its financial position at the time. N had experienced a decrease in its turnover due to the Coronavirus pandemic and had already been granted a repayment holiday by the bank. I think it would have been reasonable for N to expect that it would have to show the loan was affordable, because it was looking to renegotiate on the existing loan in place and NatWest would have needed to check that it was meeting its obligations as a responsible lender.

I also think it was reasonable for the bank to request financial information from N to see whether or not the company would be able to repay the loan in a sustainable manner and without significant risk of financial difficulty in the future. I recognise Mr O believes he was misled by the bank and that they didn't say that N's loan request was dependant on its financial position, but I'm not persuaded that's the case. I've seen the emails from NatWest which requested financial information for the bank to review and that the loan repayment information provided was just a quote that could change - not an offer – and I haven't seen any evidence to show that a loan offer was guaranteed.

However, whilst I agree it was reasonable for NatWest to request the information and use this to make their lending decision, I don't think the bank dealt with N fairly whilst undertaking the review. I've looked at the evidence from both parties and I've seen that N repeatedly contacted the bank for assistance and replied promptly to NatWest's requests for financial information – but due to errors by the bank, this information wasn't recorded correctly to show that it had been received. This meant that NatWest didn't proceed with their discussion to refinance N's loan and then issued a formal demand which N understandably wasn't expecting as it believed the loan was still being reviewed.

I acknowledge that NatWest says it could issue the formal demand in line with their terms and conditions because a new arrangement hadn't been agreed. The bank also says it wrote to N in December and January to say that it needed to contact the bank to prevent the loan defaulting so the company could have contacted them. However NatWest hasn't been able to provide evidence that any of these letters were actually sent during this time. So based on the evidence I've seen, I don't think it was fair for NatWest to default the loan as I'm persuaded the lack of new arrangement at the time was as a result of multiple bank errors.

Furthermore, since bringing the complaint to our service, NatWest has been provided again with the financial information it requested from N at the time for them to consider the loan request – as they asked. However, the bank has subsequently said due to the time that's passed it can no longer use this information. I acknowledge why this may be the case, and I don't think this is unreasonable, however this is not what was communicated to N or this service originally.

In addition, the bank has been provided with a copy of all N's subsequent financial information as requested, but they still haven't decided on whether they will refinance N loan, and on what terms, or if not, what alternatives are available to support the company. I also haven't seen any evidence that NatWest attempted to support N here, despite being made aware that the company was struggling due to the pandemic. This was further compounded when the bank was given evidence (on several occasions) in early 2022 by N to show that it had provided all the information the bank had asked for regarding the company's loan refinance – at the time it had

initially been requested. So I don't think NatWest has treated N fairly here in both not providing its decision, and for the time taken to respond to this service's requests.

Based on what I've seen, I think NatWest needs to remove the default and adverse credit information from N's credit file and make a final request for the information needed to make the loan refinance decision. They should do so within four weeks from receipt of any final decision so that N can review its options to move forward – however I don't think it's fair that NatWest's decision should be dependent on N clearing the outstanding arrears as these have arisen due to a bank error – any refinance should consider repayment of the arrears as part of the agreement. If NatWest decides they are unable to offer the refinance, then they should look to discuss a way forward with N to repay the outstanding arrears and balance in a reasonable way.

BBL account and balance issues

N told us that it has also been unable to make repayments to its BBL as it doesn't have an account to make the repayments and also received a formal demand for this loan. It says it has repeatedly contacted NatWest for assistance so it can make the contractual repayments but has been unable to do so since the bank corrected the outstanding loan balance.

NatWest told us that they don't open BBL servicing accounts for customers and that they would do this online themselves, and that it was reasonable to issue the formal demand for the BBL in February 2022 as N had missed several repayments by this point. However, I don't agree that it was fair for the bank to issue the formal demand. I say this because I've seen evidence that N contacted NatWest on 3 December 2021, before the first repayment was due.

N explained that it was unable to log onto the bank's BBL system and it wanted to look at the options and make a new selection so it could make repayments and ensure the loan didn't default. However, despite further requests from N, I haven't seen any evidence that the bank made N aware of their process, directed the company to the relevant information to allow it to make the required application or provided it with an alternative method to make the contractual repayments.

It wasn't until March 2022, after the formal demand had already been issued in February, that N was told how he to view this information. However, the balance was incorrect, and it then took a further month for NatWest to resolve this issue and they didn't resolve the system issue so N could apply for a new PAYG option. So I don't think the bank treated N fairly here.

N told us that from May 2022, it believed the issue with the BBL had been resolved and it was able to make repayments from an alternative account. NatWest has also told us that N applied for a further PAYG option to extend the term of the BBL which commenced in June 2022. So I'm satisfied that N has been able to arrange a reduction its repayments with the bank in line with the scheme rules, however, I think this is an option NatWest should have supported N in taking when it made its original request for help in December 2021. And based on what I've seen from N, I'm persuaded it would have taken this option had it been able to do so.

N has told us that it made repayments for June and July 2022 but then stopped due to struggling to meet all of its outstanding liabilities. Whilst I recognise N was having difficulties with the BBL prior to this point and wasn't sure on the outstanding balance or arrears, I think it was reasonable to expect it to continue with repayments from

June 2022 once the new PAYG option had been applied. So I can't fairly hold NatWest responsible for N not making repayments from June 2022 onwards.

However, given that N made two repayments to the BBL, I think the BBL balance should be recalculated to show these payments were made in January and February 2022, to put the company back in the position it would have been, had the error not taken place. Therefore I think it's fair for NatWest to report arrears on N's credit file from this point as I haven't seen any evidence that suggests it would have been able to make the BBL repayments if the PAYG term extension had been applied when it should have been.

Inconvenience and poor customer service

NatWest has accepted that it made mistakes in misplacing the information N had provided to support its refinance request. They offered N £75 for the initial error – although the company didn't accept this and returned the cheque. The bank then paid a further £150 compensation for providing incorrect information – but I don't think they have done enough to put things right.

I say this because I've seen that N's director, Mr O has repeatedly called and emailed NatWest for assistance, providing copies of correspondence on several occasions and still not received a reasonable response. The bank issued formal demands for N's loans without warning, and despite being provided with supporting documents didn't remove the defaults which impacted the company's ability to seek alternative arrangements - in addition to providing conflicting information during this period about both the position and balance of the loans. So I think it's clear that NatWest caused N unnecessary inconvenience at a time the bank should have been providing additional support as they were aware that N was in financial difficulty.

I think it's also worth noting here that since this service became involved with the complaint, NatWest has been provided with the information they said was required for them to decide about the loan refinance. However, they have on several occasions then changed their request, and asked for information that has either already been provided, or information that could have been requested months earlier. So I don't think NatWest has behaved in a reasonable manner here and I think they have caused N further inconvenience.

Putting things right

My aim in considering compensation is, so far as possible, to put N back into the position it would have been in if NatWest had treated it fairly. So far as the loan is concerned, I think that if NatWest hadn't misplaced N's documentation it would have made its lending decision by mid-November 2021. But I don't know what that decision would have been. I've seen the quote suggesting NatWest might offer a term of seven years at a rate of 10.4% subject to N's financial position, but I don't know whether the loan would in fact have gone ahead on that basis.

Even if the loan had gone ahead on the basis of the quote, I don't know whether the payments would have been affordable for N. I know that it didn't actually make any payments to the loan after the original expiry date – but as I've said, I consider that NatWest's failures prevented N from making those payments. I think the fairest approach now is for N to be given the opportunity to make up for its missed payments. If it is able to do so, NatWest should remove any adverse credit information in respect of the loan.

In addition, I don't know what interest rate NatWest actually charged on N's loan after the original expiry date – for example, I don't know whether it charged a default rate or some other amount.

I think the fairest approach to compensation is for NatWest to consider the difference between:

- N's actual loan, considering the loan balance, any arrears, and the payments N actually made towards the loan; and
- The position N's loan would have been in on the calculation date if its terms had changed to those in the quote from the date of the expiry of the loan, and N had made the necessary monthly payments.
- NatWest should then give N the opportunity to make the missed payments. If it does so, NatWest should restructure the loan on the assumption the terms of the loan had changed to those in the quote between the expiry of the original loan and the calculation date. NatWest should also correct N's credit record.
- If N does not believe it will be able to meet any missed payments, it should say so in its response to this provisional decision. If N's position is that it would not have been able to make payments even if NatWest had made no errors, that is likely to have an impact on my view of fair compensation.
- I don't intend to order NatWest to continue offering a loan to N on the terms set out in the quote. But I do intend to order it to consider N's application according to its usual criteria (but disregarding any arrears caused by NatWest's own errors).

In respect of the BBL, NatWest should:

- Restructure the loan on the assumption its term had been extended to 10 years in January 2022 after the expiry of its capital repayment holiday at the end of December 2021 - rather than in June 2022. That will have an impact on N's future monthly payments as well as on the balance of the loan and on the arrears.
- In carrying out the restructure, NatWest may take account of the fact N has not made a payment towards the BBL since June 2022. Given that N only made two payments to the BBL after the term was extended, I think it would be fair to assume that even if the term had been extended earlier, N would still only have made two payments.
- Based on what I've seen I think NatWest should pay N a further £600 on top of the £150 they have already paid for the inconvenience caused. The £600 includes the £75 that N didn't originally accept (and returned to the bank) and brings the total compensation payable for the inconvenience caused to £750.

I invited N and NatWest to give me any more evidence and information they wanted me to consider before issuing my final decision. NatWest accepted the decision and said that they would consider N's refinance application once the outstanding arrears had been cleared on its BBL. They also advised that N was able to take a capital repayment holiday of up-to six months on three occasions during the term of the BBL under the PAYG options if the company wished to use this to reduce its outstanding arrears balance.

N also accepted the decision. It said it hadn't actually received the original £150 compensation payment and asked that this cheque be cancelled, and the full amount paid upon acceptance of this decision. It also said, it would like to apply for the full consecutive

18-month capital repayment holiday PAYG option, to reduce the outstanding arrears which it would then clear.

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, as both NatWest and N responded to say they accepted the decision, I see no reason to reach a different conclusion. So this final decision confirms the findings set out in my provisional decision.

My final decision

My final decision is that I uphold this complaint. I instruct National Westminster Bank Plc to do the following:

In respect of the refinancing loan it should consider the difference between:

- N's actual loan, considering the loan balance, any arrears, and the payments N actually made towards the loan; and
- The position N's loan would have been in on the calculation date if its terms had changed to those in the quote from the date of the expiry of the loan, and N had made the necessary monthly payments.
- Give N the opportunity to make the missed payments. Once it has done so, the bank should restructure the loan on the assumption the terms of the loan had changed to those in the quote between the expiry of the original loan and the calculation date - consider N's application according to its usual criteria (but disregarding any arrears caused by NatWest's own errors).
- Correct N's credit record.

In respect of the BBL, it should:

- Restructure the loan on the assumption its term had been extended to 10 years in January 2022 after the expiry of its capital repayment holiday at the end of December 2021 - rather than in June 2022. Then amend N's future monthly payments as well as on the balance of the loan and on the arrears.
- It may take account of the fact N has not made a payment towards the BBL since June 2022. Given that N only made two payments to the BBL after the term was extended, I think it would be fair to assume that even if the term had been extended earlier, N would still only have made two payments.

Pay N the total compensation payable for the inconvenience caused of £750 and arrange for the cancellation of the original cheque which wasn't cashed by N.

Under the rules of the Financial Ombudsman Service, I'm required to ask N to accept or reject my decision before 5 October 2023.

Jenny Lomax
Ombudsman