

The complaint

A business partnership, which I'll refer to as D, complains that Funding Circle Ltd unfairly withdrew an offer of lending at the last minute.

This complaint has been referred to us by one of the two partners, Mr D.

What happened

In early 2022, Funding Circle made an offer of a £250,000 loan to the partnership. Two days later, in a phone call to Funding Circle, Mr D mentioned that the other partner, who no longer played an active part in the business, had started to show the early signs of cognitive decline.

Three weeks later, Mr D called the bank again to chase progress on the loan and was assured that everything was in order and final checks were being completed.

A day later, Funding Circle decided it could no longer proceed with the loan, in the light of the information Mr D had disclosed about his business partner some weeks earlier.

Mr D complained, saying that he had already committed to spending the funds, having been assured by Funding Circle that everything was in order.

Funding Circle maintained that its decision not to proceed was correct, but accepted that it had not handled the matter well. It said it should have made the decision promptly and communicated the decision immediately. It offered £1,000 in compensation, later increasing this offer to £1,500.

Dissatisfied with this response, Mr D asked the Financial Ombudsman to look into what had happened. One of our investigators did so, but didn't think Funding Circle had done anything wrong, as the loan agreement had not yet been signed. She said the offer of compensation was fair.

Mr D asked for an ombudsman to look at the matter again. He said Funding Circle had told him the money would be in D's bank account the next day, despite no contract having been signed at that point.

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 regarding what happened. However, when I read the file and listened to the phone calls, I noticed that Funding Circle had increased its offer to £1,500 from the original £1,000. I pointed this out to Funding Circle and gave it a chance to comment, but it hasn't replied.

Funding Circle accepts that its customer service was poor here. I agree with its assessment that it should have made a prompt decision following the information Mr D gave on the phone about the other partner. And it should not have misled Mr D into thinking that everything was going to go ahead in the later phone call. That said, Mr D was aware that he was yet to sign a loan agreement. And as a businessman, I'm sure Mr D understands that until the contract is in place, no firm commitment exists on the part of either party.

The loan D applied for was under the Government's Recovery Loan Scheme. But under this scheme, individual lenders (or in this case lending platforms) were still required to carry out their own underwriting. In other words, it was up to Funding Circle to decide if it was willing to proceed with D's loan. The information Mr D gave about his partner was relevant to this decision, as both partners would be liable for the loan in full.

I know that Mr D thinks the health of the other partner was largely irrelevant, since he was effectively running the business on his own. But the business was nonetheless structured as a partnership, which means that both partners were liable for any debt. I don't think it was unreasonable for Funding Circle to have reservations about making someone liable for a £250,000 debt who might have limited capacity to understand that obligation. I think Funding Circle should have asked more questions to understand the other partner's condition more fully. But ultimately, Funding Circle was under no obligation to proceed.

I'm sorry to hear that Mr D went through such a stressful period of time, which includes other distressing family events which I will not detail here. Some of these events were nothing to do with Funding Circle but clearly contributed greatly to his overall stress levels, which I understand impacted his own health. It is difficult to separate the impact of Funding Circle's actions from the stress of the overall situation. But the decision for me is whether Funding Circle's offer is sufficient to put right the upset and inconvenience which its actions caused.

Putting things right

We publish information about our approach to awards for distress on our website at <https://www.financial-ombudsman.org.uk/consumers/expect/compensation-for-distress-or-inconvenience>. I think Mr D's distress here was significant. He was left trying to sort out D's large funding gap at minimal notice, when he was just about to leave the country for a family emergency.

Having taken into account all the evidence provided about the impact of Funding Circle's error, I have concluded that its improved offer of £1,500, which is towards the upper end of our awards, is fair.

I am aware that D had to find alternative funding, which took some time and was more expensive than the recovery loan offered by Funding Circle. But I think these costs were the result of Funding Circle withdrawing its offer, which I don't think was an error, coupled with the fact that it happened after Mr D had committed to the expenditure. This is different, in my view, from Funding Circle's unfair delay in communicating that withdrawal. So I don't intend to direct Funding Circle to cover those costs.

My final decision

For the reasons set out above, I uphold this complaint and direct Funding Circle Ltd to pay £1,500 compensation for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask D to accept or reject my decision before 8 October 2024.

Louise Bardell
Ombudsman