

The complaint

A company which I'll refer to as R, complains that HSBC UK Bank Plc, unfairly declined its application for a loan.

In bringing this complaint, R is represented by its director, who I'll refer to as Mr P

What happened

Mr P has told us that:

- R was looking to set up a franchise business, and to that end, in May 2023, on R's behalf he applied for a £175,000 business loan (the Loan) as well as a £60,000 overdraft (the Overdraft).
- On 4 July 2023, HSBC wrote to R enclosing a facility agreement (the Agreement) setting out the terms on which they were prepared to lend, which R accepted.
- Later, HSBC changed their mind and on 6 September 2023, they wrote to R to say they'd decided to decline its application on the basis that it didn't comply with the bank's current policy. He later learned that HSBC concluded that they had no appetite for funding the franchise brand R intended purchasing.
- But since HSBC went through all the initial processes their decision came as a surprise. In particular, they'd conducted several personal credit checks on him and in August 2023, confirmed that the application had been given second-tier approval and would now be subject to the third and final tier of approval. To have changed their position so late in the process and concluded R did not meet their lending criteria was unfair.

HSBC disagreed. They maintained their position that R's application was declined for the reasons mentioned above. In addition, they said – in summary:

- Mr P wasn't able to give HSBC a second charge on his residential property which meant one of the lending conditions in the Agreement couldn't be met.
- And although in August 2023 they did suggest that as an alternative, a Recovery Loan Scheme (RLS) application might be the way forward, ultimately, this was rejected because HSBC had indeed taken the decision to suspend further lending to the franchise brand.

As R's complaint remained unresolved, Mr P referred it to this service to look into. Our investigator did so but she didn't think the bank had done anything wrong. In summary she said that:

- HSBC's decision to decline R's application was a commercial decision that the bank was entitled to take. And except where we consider that the decision was taken unfairly, we wouldn't usually interfere with it.

- She considered the bank's explanation of its decision and the supporting evidence it provided. And the evidence demonstrated that R was unable to fulfil certain conditions that HSBC stipulated in the Agreement. She believed therefore that R's application was fairly declined after being properly considered against the bank's lending criteria.

Mr P didn't agree with the investigator's conclusions and has asked for an ombudsman to review R's complaint. In further submission, he said - in summary:

- In the beginning when he approached the bank for the Loan, he did understand that security would be needed. But HSBC steered him towards RLS because the need to provide tangible security wasn't a requirement for approval.
- The franchisor advised him that HSBC were the preferred bank for the particular franchise brand. And furthermore, that in the past they had approved several business loans to other franchises and would approve the Loan.
- The bank's position is surprising because in conversations with HSBC as early as June 2023, the bank told him that he'd provided all the documentation it had asked for and there was nothing wrong with the application.
- There were external considerations behind HSBC's decision which is unfair to R. Including concerns HSBC had about the franchisor's tax affairs and its failure to give HSBC the documents they asked for to be able to approve the application.

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.

I thank Mr P for his further submissions. I can see how strongly he feels about this complaint. His disappointment with HSBC's decision is also clear and is understandable. But in my decision, which I'll come to in more detail below, Mr P will see that I have not commented on all aspects of his testimony. For example, I don't think it would be appropriate for me to comment on his submission regarding any dealings the bank may have had with the franchisor or other franchisees in connection with their affairs. And nor have I commented on any representations the franchisor may have made to Mr P regarding the certainty or otherwise of a successful loan application to HSBC. My decision focusses solely on how HSBC treated R.

Our investigator has correctly pointed out that lending decisions are a matter for a bank's commercial judgement.

HSBC decided that they didn't want to grant the Loan and Overdraft to R. And R's RLS application was not approved either. I consider these decisions were a matter for the bank's commercial discretion. And it would be inappropriate for me to interfere with that discretion unless I was satisfied it was not exercised fairly by HSBC. So, I've thought about that.

Both parties agree that one of the conditions R needed to meet in order for HSBC to complete the Loan and Overdraft was the provision of tangible security. This was made clear in clause 5 of the Agreement which says:

5. What we need from you:

Security

- (m) Legal mortgage from [R] over the Leasehold property known as [ie the property owned by Mr P].
- (n) A certificate of title from your solicitors.
- (o) A satisfactory valuation of [the property owned by Mr P] addressed to us.
- (p) Any documents we need to enable us to register the security.

Mr P has acknowledged that he was in no position to provide the security the bank needed - ie his property. The exchange of emails dated 10 August 2023, that Mr P had with the agency through which he'd bought his property confirms this position. They told him:

"Unfortunately, we only allow 2 charges on the property, this being (1) your mortgage lender and (2) the Help to Buy equity loan. We will not allow any other charges to be listed as stipulated in our terms and conditions."

In light of R's inability to satisfy fully the conditions of the Agreement, I don't think I can reasonably conclude that HSBC's decision to decline R's application was unfair

The RLS

Mr P is right that he was steered towards a RLS when it became clear that the security requirement for the Loan and Overdraft couldn't be met. HSBC acknowledges this. So, I can understand the further disappointment that R was unable to secure lending through this alternative route.

But HSBC have explained that around that time, they took the decision to no longer fund the franchise brand Mr P intended purchasing. Here also, I'm satisfied this was a commercial decision HSBC were entitled to take. Furthermore, I think it was a reasonable decision in the circumstances albeit, the effect was that R's application unfortunately fell outside the bank's lending appetite.

The reasons the bank has given me for taking the decision it did involves third parties to whom HSBC has a duty of confidentiality. So, it would be inappropriate for me to share those reasons. However, having weighed them carefully, and although sympathetic to the impact that ultimately, they had on R's application, I don't think the bank's decision was unreasonable or unfair.

I acknowledge that R will be very disappointed with my decision. But having taken all the evidence into account, in the circumstances of this case, I don't think HSBC have treated R unfairly.

My final decision

For the reasons I've given above, my final decision is that I do not uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask R to accept or reject my decision before 22 December 2025.

Asher Gordon
Ombudsman