

The complaint

Miss B is a sole trader. She complains that National Westminster Bank Public Limited Company hasn't treated her fairly regarding her Coronavirus Business Interruption Loan (CBIL).

What happened

Miss B successfully applied for a £75,000 CBIL from NatWest in June 2021. The loan was scheduled to be repaid over six years.

Under a government-backed scheme, CBILs were designed to help businesses get financial support if they were adversely affected by the coronavirus outbreak. The government paid the interest on the loan during the first 12 months.

The interest rate on Miss B's CBIL was fixed at 3.24% for the first 36 months. Thereafter, the loan was due to revert to a variable rate of 2.81% over base rate.

NatWest contacted Miss B in April and May 2024 to remind her that the fixed rate was due to expire in June 2024. The bank gave her options for fixed and variable rates going forward. The rates it offered, both fixed and variable, were substantially higher than the expiring fixed rate.

Miss B explained to NatWest that her business and personal circumstances had changed and the options offered by the bank weren't affordable. She asked for the loan interest to be frozen and the monthly payments to be reduced, for a period of 18 months, with a review of the situation after 16 months.

The bank transferred the management of the loan to its Specialised Business Management (SBM) team and asked Miss B to complete an income and expenditure form. On receiving that information, NatWest offered two options – to move the loan debt to the bank's recoveries department or to work out a reduced payment arrangement with the expectation that the arrears would be repaid later, including the interest which would continue to be applied to the loan.

Miss B complained to NatWest. The bank said its approach and the options offered were the same as for any lending where the business was in difficulty. NatWest also said that it was mindful that this was a government loan scheme and the bank must ensure it follows the scheme's guidelines.

Miss B was unhappy with the bank's response and she referred the complaint to us. She said that under the CBIL scheme, loans can be extended to ten years in exceptional circumstances, but the bank didn't offer that. She felt that the bank was not supporting her during an evident time of temporary difficulty.

Miss B made the following specific points, in summary:

- NatWest sent her some confusing calculations of how the loan will increase in costs.

She is still unsure as to what terms she is under, as she was not given the opportunity to understand the changes or make a choice. As a result, her interest has significantly increased which makes the loan unmanageable.

- She is committed to paying back the full loan, but her business struggled to recover after Covid. Because of this and unavoidable family commitments, she needed to change the direction of the business. She faces some barriers but these are short-term. She told NatWest she had secured a consultancy contract. She has asked the bank to explore both long-term and short-term support solutions.
- Her understanding is that lenders are supposed to follow the Financial Conduct Authority (FCA) guidelines when supporting customers in financial difficulty.
- She asked what restrictions NatWest is working under in respect of the CBIL. She believes the bank isn't restricted in supporting customers with interest/payment support.

I note that recently NatWest has considered a new income and expenditure form from Miss B, with updated information. In the light of her changed circumstances, the bank has offered to extend the loan term from six to ten years. My understanding is that Miss B hasn't yet accepted this offer and remains of the view that the bank hasn't supported her.

I issued a provisional decision in which I said I was minded not to uphold the complaint, for reasons that I give below. In response, Miss B made further comments, which I also consider below.

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.

It's common ground that Miss B's sole trader business ran into difficulties. This was partly because of Covid and partly because of changes in her family circumstances. These changes not only took up her time, but also meant that the amount of paid work she undertook had to be reduced as a condition of her benefits as a carer.

This was unfortunately followed by the end of the original fixed rate period on the CBIL. NatWest offered new rates that were much higher than the expiring fixed rate.

What I must consider first is whether the bank acted fairly and reasonably when it raised the interest rate on the CBIL.

Interest rates generally had risen, compared with the time when the CBIL was taken out – the Bank of England rate had risen from 0.1% in mid-2021 to 5.25% in mid-2024. In the changed environment, the rates that NatWest offered to Miss B for the CBIL after the expiry of the original fixed rate were therefore more than double the rate she had been paying. I'm satisfied that this increase was the result of general interest rate movements. The original CBIL agreement in 2021 stated that the variable interest rate after the fixed rate expired would be 2.81% plus the base rate, so I'm also satisfied that NatWest had given Miss B clear information from the start that the variable rate would track the base rate. For these reasons, I don't think the bank acted unfairly or unreasonably when it raised the interest rate on the CBIL in 2024.

When Miss B explained to the bank that the new rates wouldn't be affordable and requested an interest freeze and lower repayments, the bank requested income and expenditure

information. Administration of the loan was passed to the SBM team who communicated with Miss B by phone and email. In the light of her difficulties, the bank offered her two options. First, if the loan wasn't affordable, Miss B's accounts could be closed and passed to the bank's recoveries department. The second option was a financial assisted arrangement, whereby a reduced payment would be accepted for a period, after which the original repayments would recommence plus an additional amount to reduce the arrears. This option would stop interest being applied to arrears but interest on the original lending would continue.

In her complaint, Miss B said that of these two options, the first one – defaulting the loan – was the only one she could take forward, but she didn't think it was fair, as she felt there was a viable solution, which was her proposal for freezing the interest and paying off the balance over an extended loan term.

What I must therefore consider is whether NatWest acted fairly and reasonably when it offered the two options and didn't agree to freeze the interest on the loan.

I haven't seen anything in the CBIL scheme requiring lenders to charge any specific interest rate (other than the existence of an upper limit, which the bank hasn't exceeded in this case). Miss B, in her response to my provisional decision, says that NatWest told her that no deviation was permitted and it therefore couldn't reduce interest. She has asked that it be made clear that the bank could have done so if it wished. But I note that CBIL lenders were required to agree that they would operate the loans in line with their normal commercial offerings. I believe this is what NatWest was referring to when it said it had to be mindful of the rules of the government scheme. So the expectations that I will apply in my decision are the same as I would in regard to normal commercial lending.

Miss B argued that the bank was obliged to follow FCA guidelines. In my provisional decision, I said that her CBIL isn't FCA-regulated lending. In response, Miss B has said that the FCA has many documents regarding expectations on lenders, and she feels these guidelines should form part of the decision-making process. In particular, she points to the support measures discussed in CONC 7.3.5 G of the FCA Handbook. But Miss B's loan was for £75,000 and was therefore above the £25,000 limit for a regulated credit agreement, so the bank's decision-making regarding the terms and conduct of the loan are not subject to FCA rules and guidelines. Having said that, my remit is to consider what's fair and reasonable in this complaint, so I have considered whether NatWest provided sufficient information about the loan, engaged with Miss B in pursuit of a solution, listened to her and took her circumstances into account.

Having looked at the evidence, it's my view that NatWest engaged with Miss B about her difficulties, listened to her and tried to find a solution within the normal boundaries of commercial lending. The bank put two options to her, both of which I believe she understood, even though she didn't agree with them. So I don't think the way that NatWest handled the discussions was unfair or unreasonable.

Ultimately, the real sticking point between the parties was the charging of interest on the loan. Miss B said the CBIL could be kept out of default by freezing the interest, but NatWest said that it wouldn't do that. I think the bank was entitled to continue charging interest on the loan, as set out in the loan agreement. I don't think the bank was obliged, even after considering Miss B's changed circumstances, to charge anything other than the contractual interest rate. The bank offered other options for managing the debt, either by going into default or by keeping the loan active with the financial assisted arrangement. For these reasons, I don't think NatWest acted unfairly or unreasonably when it declined to freeze the interest on the CBIL.

I've no doubt about Miss B's sincerity in saying she has always been committed to repaying the loan, and that her aim was to keep the loan affordable until such time as her circumstances changed enough for her to continue with the full repayments. But her proposal for achieving that relied on freezing the interest. In the circumstances, I don't think it was unfair of the bank to decline to accept that.

In response to my provisional decision, Miss B said that she had asked for either a freeze on the interest or a consideration of a lower amount. I've looked carefully at the available correspondence and at the bank's notes of calls and, as far as I can see, the evidence shows that in May and June 2024, Miss B was asking NatWest to freeze the interest. But even if I'm wrong about this and Miss B had also asked for a reduction in the interest rate (as an alternative to her request to freeze the interest), this wouldn't change my decision. I've already said that I don't think the bank was obliged, even after considering Miss B's changed circumstances, to charge anything other than the contractual interest rate. I believe the bank acted fairly by offering the two options to Miss B, both of which took her difficulties into account and one of which would have kept the CBIL live.

Miss B has said the bank's income and expenditure assessment in June 2024 was flawed because it omitted some information. I don't intend to make my own assessment here, but in any event I don't think it would have made any difference to the outcome, because Miss B has herself said that the payments weren't manageable at the new interest rate. She has said the bank knew that her business had ceased trading. In my view, the lack of business revenue was the underlying problem at the time, and in the circumstances I don't think the bank would have offered any different option. In particular, I don't think the bank would have agreed both to freeze or reduce the interest and to lower the repayments, as requested by Miss B.

I note that NatWest didn't offer an extended loan term in June 2024, even though an extension from six to ten years would have been permitted under the CBIL scheme. Again, my belief is that this wouldn't have made any difference at the time, as the core problem was an absence of any significant business revenue, when Miss B was facing a higher interest rate on the loan.

Having considered Miss B's further points, I haven't diverged from my provisional decision, for reasons that I've given above.

Taking everything into account, I conclude that NatWest didn't act unfairly or unreasonably towards Miss B in 2024 when it offered higher interest rates on the CBIL and then offered her two options in response to her difficulties, but declined to freeze or reduce the interest.

I should add that in my consideration of this complaint, I'm not looking at the fairness of the bank's recent proposal of revised loan terms. This is a new negotiation, which started months after the complaint was brought here, and is based on new circumstances. As it's not part of the series of events in the original complaint and is based on changed circumstances, I don't regard the new negotiation to be part of the original complaint, and I leave it to the parties to communicate direct with each other about it.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 10 July 2025.

Colin Brown
Ombudsman