

complaint

Mr K complains that Lloyds TSB Bank Plc is wrongly holding him liable for the entire debt from a business loan. He says the bank has already been paid 75% of the debt under a government guarantee scheme.

background

Mr K was a sole trader and in 2008 he took out a business loan which was backed by the government's Small Firm Loan Guarantee scheme – later renamed the Enterprise Finance Guarantee scheme. The scheme provided a back-up guarantee for 75% of the loan.

In 2010 Mr K's business ceased trading. Since then the bank has pursued him for the entire balance of the debt. Mr K complained that when the loan was agreed he understood he would only be liable for 25%, so he felt that Lloyds had mis-sold the loan. In its response to his complaint, Lloyds said that Mr K had signed an information declaration at the time stating that he understood that he would remain liable for the full amount.

Mr K was unhappy with the bank's response and referred his complaint to this service. He also said that as the bank had already claimed 75% of the debt from the government under the guarantee scheme, it would be wrong to pursue him for the same sum.

Our adjudicator investigated the complaint and recommended that the complaint should not be upheld. Briefly, he said:

- A section of the loan agreement stated *"This agreement creates legal obligations and therefore before signing, we recommend that you consider taking independent advice. This may help you understand the potential consequences in the event that things go wrong"*.
- Mr K signed the information declaration which stated *"I understand that, even though the Government is providing a guarantee to the lender in connection with my loan, I remain responsible to the lender for the loan and in the event that I default on the terms of the loan, the lender is entitled to seek to recover the full amount outstanding from me"*.
- The adjudicator therefore believed that, at the time, Mr K should have been aware of the nature and implications of the agreement.
- The bank's internal guide to the guarantee scheme shows that if the bank receives a guarantee payment from the government then later recovers the debt from the customer, the bank should repay the government.

Mr K disagreed with the adjudicator's conclusions and asked for a review by an ombudsman.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I have little to add to the adjudicator's conclusions about the information given to Mr K at the time of the loan agreement. This was a business loan and the bank recommended that he

take independent advice before committing himself. Mr K also signed a form confirming that he understood his liability, and the same form stated that despite the government guarantee he would remain liable for the full amount. Mr K says the bank advised him that he would be liable for only 25% of the loan, but there is no other evidence to support this. Given the clear messages in the loan documentation about taking advice and the extent of Mr K's liability, I cannot say that the bank misled him.

Under the terms of the government's loan guarantee scheme, banks are expected to pursue borrowers for unpaid debts, to the full amount of the loan. The guarantee is provided to reduce the bank's risk, not to reduce the customer's liability. If the money is recovered from borrowers after the government has paid the guaranteed sum to the bank, then there are arrangements for the money to be returned to the government. The bank is therefore not reimbursed twice for the same debt. In any case, this would be a matter between the bank and the government, not between the bank and the customer. The customer's position is clear – under the scheme, and correspondingly in Lloyds' loan documentation, the customer remains liable for any unpaid balance on the loan.

I realise that Mr K will be disappointed by my decision but I find that Lloyds is entitled to hold him liable for the full debt.

my final decision

My final decision is that I do not uphold this complaint.

Colin Brown
ombudsman