

## **The complaint**

Ms S is a sole trader. She complains that National Westminster Bank Plc treated her unfairly by transferring her Bounce Back Loan (“BBL”) to a debt recovery company while a Pay As You Grow (“PAYG”) repayment holiday was in place.

Ms S says that this error impacted her credit file, resulting in material losses, including loss of rental income and higher mortgage costs, as well as causing her distress.

## **What happened**

Ms S runs a property rental business, which applied for a BBL in May 2020.

By July 2021, Ms S’s tenants had left her without a source of income to meet her monthly BBL repayments. After several conversations with NatWest, she applied for a six month PAYG repayment holiday in November 2021, which was accepted under the terms of the scheme.

In January 2022, less than three months into the repayment holiday, NatWest transferred Ms S’s account to their Recoveries department, later moving it to a debt collection agency and registering a default on Ms S’s credit file.

Ms S complained and the bank initially rejected her complaint. Ms S persisted and in June 2022, NatWest agreed they had made an error and shouldn’t have transferred her to Recoveries. To put things right, they reversed the transfer, removed the adverse information from her credit file and offered her £200.

Ms S rejected the £200 offer, as she felt her losses were much higher, and referred her complaint to the Financial Ombudsman.

One of our investigators looked into what had happened. She wasn’t persuaded that Ms S had provided evidence for the losses sought, although she felt that NatWest had deprived Ms S of the opportunity to do something to grow her business. Our investigator also felt the bank had caused Ms S a lot of stress. She recommended the bank pay compensation for this of £500, being an additional £300 on top of NatWest’s offer.

NatWest agreed to our investigator’s suggestion but Ms S did not. She considered she had provided ample evidence of substantial losses and made the following points:

- Her plan was to raise funds via a mortgage on an existing property (which I’ll refer to as “property A”) in order to buy two new properties to let to the lucrative student market.
- The default on her credit file as a result of the bank’s error had caused the mortgage application to be rejected, thereby preventing her business from expanding and depriving her of rental income from the new properties she was going to buy.
- NatWest’s action had deprived her of rental income from property A.

- She had also been about to remortgage another property (“property B”) on to a fixed rate mortgage. Because of NatWest’s error, she was now stuck with a tracker mortgage that had kept increasing with interest rates.
- Rising interest rates meant that she had missed her opportunity to expand, which was now far less attractive in a higher interest rate climate. This was why she hadn’t bought the planned properties after her credit file was rectified.
- Our investigator had concluded that mortgage acceptances or rejections were based on more than one factor. But the same lender had made her business an offer in November 2021 and then rejected her application in February 2022.
- She had never had an application rejected before NatWest made their error and had an excellent credit score.
- In July 2022, she had felt obliged to pay £8,066 to repay her BBL in full in order to clear her poor credit rating, as credit searches were still showing the default despite the bank agreeing to cancel it. The money used was savings that she had earmarked to pay legal fees on the new properties she planned to buy.

### **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.

First, NatWest have accepted they made an error in this case, so there’s no need for me to look into the circumstances of the default and the transfer to Recoveries. I think both parties agree that the direct losses from the error have been rectified by ceasing any recovery action regarding Ms S’s BBL and restoring her credit file. This complaint is now about consequential losses.

I need to decide what further losses were incurred by Ms S as a result of the period in which her credit file incorrectly showed a default. To do that, I need to look at whether the default actually caused the consequential losses claimed. And if it did, I’d also need to ask whether it would be fair to hold the bank responsible for those losses. So I’d need to decide whether the bank could reasonably foresee that their error would result in losses like those.

I’m not sure when exactly the default appeared on Ms S’s credit file, but she has provided evidence of an accepted mortgage in November 2021 and a declined one in April 2022. As our investigator said, we can’t know for sure what other factors might have influenced the declined application. But I accept it seems likely that NatWest’s error was at least a significant contributory factor. However, Ms S’s claimed losses require me to accept several more increasingly hypothetical steps beyond this mortgage – the principal ones being acquiring two new properties and successfully renting them out.

It’s possible that the bank’s actions might have prevented Ms S from executing her business plan, as she has described it. But I agree with our investigator that there is far too much uncertainty about this outcome for it to be fair to award compensation on that basis. It’s unclear how much she could have raised and I haven’t seen any evidence that Ms S had identified any properties to buy. Even if she had, there is no certainty that she would have successfully rented them out to students as planned, even if there is high demand in the area.

Ms S’s only evidence of how much her business has lost is the amount she made by renting out another property to students in the period. But we have no way of knowing that she

would have found properties of the same size and income-generating capacity.

I also can't see why the bank should be held responsible for a loss of rental income on property A, as I don't see why the bank's error prevented her renting it out, whether it was mortgaged or not. She was living in it, but she's told us she planned to move to a third property and had ported her mortgage from that property in order to do so. I don't think the bank's actions prevented this move.

It's clear that the bank's error happened at an unfortunate time for Ms S's property business, occurring just as interest rates were beginning to rise. Ms S says that the mistake also prevented her from remortgaging property B, resulting in her missing an opportunity to fix the interest rate before they rose. This intention may well have been in her mind, but unfortunately she hasn't produced any evidence to support this claim and without it, I don't think it would be fair or reasonable for me to award compensation.

Ms S has said that she felt obliged to pay off her BBL in full in July 2022, as a default was still showing on her credit file and she was concerned about the length of time NatWest was taking to rectify it. There is always something of a lag in the amendment of a credit file and I'm not persuaded that paying off the BBL would necessarily have achieved her aim of restoring her credit rating any faster. I don't therefore consider that paying off the £8,066 was a consequence of NatWest's error. In any case, Ms S would have had to repay her BBL sooner or later (and repaying it sooner will have saved her interest), so I don't think this is a loss caused by NatWest's actions.

I can see that being deprived of £8,066 might have had an impact on cashflow, if this was the only cash available to pay legal fees. But I don't think the absence of £8,066 is what prevented Ms S from buying further properties, and as she didn't end up buying them, I don't think the absence of savings to pay legal fees caused any difficulty. I'm therefore not persuaded that paying off the BBL caused any loss. So I don't think it would be fair to award any compensation for this.

### **Putting things right**

In considering consequential loss claims, I need to decide what is more likely than not to have happened had the bank not made its error. In Ms S's case, I don't think I can say with any clarity what would have happened. The losses are not clearly defined and there are too many hypothetical questions. I therefore don't think it would be fair to award compensation for the potential losses Ms S has outlined.

I do, however, agree with our investigator, that the bank put Ms S in a stressful situation that she wouldn't have been in without their error. I'm satisfied that the news that her previously strong credit profile had been damaged and she was now being rejected for finance must have come as a terrible shock, jeopardising as it did her whole business. The decision to repay her entire BBL, whilst in my view unnecessary, shows the extent of her concern. I agree with our investigator that compensation of £500 for this is fair.

I have seen evidence that Ms S hasn't cashed the cheque NatWest sent her for £200, at least as at October 2022, in which case they should arrange to cancel the old cheque and issue a new one for £500. If the cheque has been cashed after the evidence I've seen, then they will need to pay her an additional £300.

### **My final decision**

For the reasons set out above, I uphold this decision in part and direct National Westminster Bank Plc to pay Ms S compensation of £500 in total, in addition to the actions they have

already taken.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 3 August 2023.

Louise Bardell  
**Ombudsman**