

The complaint

A company, which I'll refer to as L, complains that National Westminster Bank Plc didn't inform it that the fixed interest rate period of its loan was coming to an end.

What happened

In August 2018, L took out a ten-year commercial loan for £160,000 from NatWest. The agreement said that the interest rate would be fixed at 5.14% for the first three years, after which there would be a variable rate of 4.32% over the base rate for the remainder of the loan duration.

The loan was supported by an Enterprise Finance Guarantee (EFG), under a government-backed scheme that provided guarantees for lenders in order to promote lending to businesses that might not meet normal security requirements.

The interest rate on the loan remained fixed until August 2021 then became variable, as specified in the loan agreement.

In 2023, L complained to NatWest, saying that the company wasn't informed about the change to the variable rate. L wanted the loan to be put back on the fixed rate and for the excess interest to be refunded. The bank didn't agree, saying that the original loan agreement made clear when the fixed rate period would end. Unhappy with the bank's response, L referred its complaint to us.

Our investigator looked at the evidence and reached the following conclusions, in summary:

- In 2021, L already had all the information that it needed in the signed agreement and Interest Fixing Schedule. The three-year fixed rate period was always going to end in August 2021.
- The investigator couldn't see anything in the loan agreement that required NatWest to remind L either before or when the fixed rate period was coming to an end.
- More importantly, the agreement doesn't state that L had a right to re-fix after three years, whether at the original fixed rate or at any rate. The agreement states that after three years at the fixed rate, the rate would move to the agreed variable rate for the remaining seven years.
- The investigator thought it unlikely that L would have been able to fix the rate in 2021 within the original EFG loan contract. She therefore thought that L hadn't suffered any financial loss.
- It seemed that the bank's relationship manager for L wasn't able to remind L about the period ending because he didn't receive an internal email. Although the bank wasn't required to alert L when the fixed rate period was coming to an end, the investigator thought it would be fair and reasonable for the bank to pay £250 compensation for inconvenience caused to L.

NatWest accepted the investigator's findings.

L disagreed with the investigator. Its directors made the following points, in summary:

- The interest was fixable after three years of the term. Customers can re-fix as many times as they want. The directors would have re-fixed if they had received the letter.
- If the directors had known the fixed rate was coming to an end, they could have looked at other loans from other banks.
- There's another product called the recovery loan scheme, backed by a government guarantee, which does exactly the same as the EFG scheme. They could easily have moved over.

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 that, I've reached the same conclusions as the investigator and for largely the same reasons.

L had an EFG-backed loan from NatWest which at the outset had a fixed interest rate for the first three years, to be followed by a variable interest rate for the remaining seven years. What I need to decide is whether NatWest was obliged to offer L a further fixed rate period after the expiry of the three-year fixed rate period, and whether the bank was obliged to remind L when the three-year fixed rate period came to an end.

Was NatWest obliged to offer L a further fixed rate period after the expiry of the three-year fixed rate period?

I've looked carefully at the 2018 loan agreement. It states that the interest rate will be fixed for 36 months but I can see nothing in agreement that required the bank to offer another fixed rate after that period expired.

Nor am I aware of any regulation or rule that obliged the bank to offer another fixed rate period after the expiry of the 36 months. L's directors assert that the interest rate could be fixed after three years of the term and that customers can re-fix as many times as they want, but I don't agree. Depending on the circumstances, banks and their customers can set new terms for commercial loans by agreement, but this would require the consent of both parties. There is no requirement on the bank to agree a fixed rate period, either in new lending or during the course of an existing loan.

I therefore conclude that NatWest was not obliged to offer L a further fixed rate period, or to agree to any request from L for a further fixed rate period, after the expiry of the three-year fixed rate period.

Was NatWest obliged to remind L when the three-year fixed rate period came to an end?

On its first page, the loan agreement stated that the fixed rate period was to be 36 months. I therefore agree with the investigator that L knew from the outset that the fixed rate period was going to end in August 2021.

Again, I've looked carefully at the loan agreement. I can see no requirement on the bank to remind L when the fixed rate period ended. Nor am I aware of any regulation or rule that obliged the bank to remind L of the content of their loan agreement.

I therefore conclude that NatWest was not obliged to remind L when the three-year fixed rate period came to an end.

I agree that the relationship manager might have been in a position to remind L of the expiry of its fixed rate period, had he received an internal email to that effect. It's likely that he didn't receive such an email, and the bank has agreed to the investigator's recommendation that it should pay £250 for inconvenience caused by this.

Refinancing the loan

For the same reasons given by the investigator, I'm not persuaded that a new fixed rate could have been achieved in practice in 2021 within the EFG loan, even if the bank had agreed in principle. It's possible that L could have secured a better deal by shopping around, or by applying to another government-sponsored scheme, though I've seen no evidence to show that's what would have happened. But in any event, given that L already had all the information it needed in 2021 to seek refinancing when the fixed rate period ended, I can't reasonably say that the bank should be held responsible for any losses suffered by L as a result of the company remaining on the variable rate as specified in the loan agreement.

My final decision

My final decision is that National Westminster Bank Plc should pay £250 to L for inconvenience. I don't require NatWest to put the loan back on the fixed rate or to refund any interest.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 9 April 2024.

Colin Brown
Ombudsman