

The complaint

Mrs H complains about a refund Lloyds Bank PLC trading as Lloyds TSB Bank, have applied to her account.

What happened

In 2013, Mrs H got into financial difficulties and entered into a Trust Deed with her creditors, one of whom was Lloyds. The balance owing to Lloyds at this time was £930.46.

In 2016, Lloyds accepted a payment of £141.76 to settle the debt Mrs H owed. This was recorded as a 'partial settlement' – where an amount less than the outstanding balance has been agreed to settle the account.

Later, in 2019, Lloyds discovered that it hadn't always taken the appropriate action when dealing with some of its customers' accounts who were in collections. So, they reviewed those customers' accounts as part of a rectification project. As a result of the review Lloyds refunded some of their customers interest and charges that had been added over the period where it hadn't taken appropriate action. Lloyds decided that Mrs H's account was eligible for a refund of around £221.18. Lloyds paid this money into Mrs H's account to offset against the debt it said was still outstanding - saying that the amount that was still outstanding was more than the amount refunded.

Mrs H wasn't happy with Lloyds' proposal to pay the refund towards the balance. She says that she had settled the account. And because of this, she should get the refund sent to her direct.

Lloyds responded to Mrs H's complaint to say that it had applied the refund correctly. It said that it would only pay a refund directly to a customer if they had repaid the debt in full. And because there was an outstanding balance, the refund was being used to reduce the loss to Lloyds.

Our investigator also looked into things for Mrs H. He didn't think Lloyds needed to pay the refund directly to Mrs H either. He said that the amount refunded to Mrs H was made up of interest and charges that Mrs H hadn't ever repaid – this is because she didn't settle the balance owing to Lloyds in full. So, he thought it was fine for Lloyds to reduce its loss with the refund.

Mrs H didn't agree with our investigator and asked for her complaint to be reviewed by an ombudsman – but she didn't provide any specific reason as to why she didn't agree.

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.

And having done so, I'm not upholding Mrs H's complaint and I'll give my reasons for this below.

When Mrs H entered into the Trust Deed in 2013, the balance on her Lloyds account was £930.46. Lloyds agreed to a partial settlement of the debt, and so £141.76 was paid to settle the debt in 2016. The partial settlement meant that Mrs H's liability for the debt ceased – therefore Lloyds wouldn't pursue her for the rest of the money owed. But there was still debt of around £788.70 that existed with Lloyds.

So I now need to think about whether it was fair of Lloyds to set the refund off against the debt. And I think it was.

Any charges and interest that were applied to Mrs H's account prior to 2013 formed part of the balance that was subsequently considered as part of the Trust Deed. Mrs H didn't repay the outstanding debt in full – and so she didn't repay all the interest and charges due. Even when she paid £141.76 in partial settlement, this didn't cover everything she owed – but Lloyds agreed at this point that it would no longer chase her for the outstanding amount, and she was no longer liable to repay it.

The amount Mrs H paid to settle the account would have been based on what she could afford at the time – and not on the balance owed to Lloyds. And so by Lloyds applying the refund now to offset the 'settled' debt, hasn't made any difference to Mrs H – and she hasn't lost out as a result of this.

Because Mrs H didn't ever pay the full outstanding balance, she hasn't been out of pocket as a result of the interest and charges not being refunded directly to her. And so I think it fair of Lloyds to offset the refund against its loss – instead of repaying this directly to Mrs H.

My final decision

For the reasons set out above, I don't uphold Mrs H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 12 November 2020.

Sophie Wilkinson
Ombudsman