

The complaint

Mr L has complained that a refund of interest has been applied to the unsettled portion of his credit card debt rather than being paid to him directly.

What happened

Mr L took out a credit card with Santander UK Plc in January 2011 and fell into arrears in April 2011. In 2013 a partial settlement was agreed with Mr L and he paid £2,700 of the £4,174.61 balance. This left a remaining balance of £1,474.61 which Santander agreed not to pursue him for.

Santander discovered that they hadn't been sending some of their customers a notice of arrears for every month that an account was in arrears. So, they reviewed those customers' accounts as part of a rectification project. As a result of the review Santander refunded some of their customers the interest and charges that had been added over the period when the notices hadn't been sent out. Santander decided that Mr L's credit card account was eligible for a refund of £519.23 and explained how this was calculated in a letter to him in 2020. Santander paid this money into Mr L's credit card account to offset against the remaining balance.

Mr L contacted Santander saying he wanted them to pay the money directly to him.

Mr L was unhappy that Santander had applied the £519.23 to his outstanding balance rather than paying it directly to him. He explained that when he paid the final partial settlement to Santander, he paid the minimum possible which was 65% of the outstanding debt.

Mr L has said if Santander had applied this refund of interest at the time he wouldn't have had to pay as much as he did to partially settle the account so he thinks the right thing to do would be to pay the refund of interest to him rather than reduce the outstanding balance. Santander didn't agree.

Our investigator looked at what Mr L and Santander had said and concluded that Santander hadn't acted unfairly in using the refund of interest to reduce the remaining balance.

Mr L was disappointed with this outcome and so asked for an ombudsman to review the case.

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.

I can see that Mr L feels strongly about this matter. And I understand that he'll be disappointed not to receive the refund of interest, but I think the investigator has reached the right answer here.

Mr L has argued that his partial settlement figure was calculated incorrectly given that interest was charged to his account that shouldn't have been.

He's argued that the minimum amount Santander would accept as a partial settlement was 65% of the overall debt which is what he paid. He believes that if the interest refund had been applied at the time this would have reduced his outstanding debt and so 65% of this debt would have been significantly less than the £2,700 he paid in partial settlement of it.

I've considered what Mr L has said and although I appreciate his argument, I don't agree that he would have necessarily paid less. A partial settlement is based on what the customer can afford to pay, and banks often set a minimum threshold for what they will accept. So, in this case 65% of the overall debt was a minimum threshold for a partial settlement which means where a customer could afford to, they would be expected to pay more than this to partially settle the debt.

Ultimately, Mr L was liable to pay the full debt but was able to pay £2,700 in 2013 to partially settle, which Santander accepted. So, I think he would have been able to pay this regardless of whether it equated to 65% of the overall debt.

As the amount payable under a partial settlement should be based on what the customer can afford, I don't think it's unreasonable that he paid the £2,700 rather than a potentially lower figure. Even if Santander had refunded the interest at that time, as Mr L could pay the £2,700 I think it's fair that he did this, even if it did equate to more than the minimum of 65% he's said Santander set out.

Although Mr L made a partial payment to settle his account this doesn't mean any remaining balance was written off. That balance remains, but Santander agreed they wouldn't pursue Mr L for this sum.

As there is still a balance on the account, I don't think it's unreasonable for the refund of interest to be off-set against that amount. This is because Mr L was able to pay £2,700 to settle the debt regardless of whether this equated to 65% of the debt or more, and the refund would always have been applied to the account balance. So, I don't think Mr L is out of pocket here given the refund would never have been paid directly to him and in 2013 he paid what he was able to, to settle the debt.

My final decision

For the reasons I've explained above, I do not uphold Mr L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 13 December 2021.

Carolyn Harwood
Ombudsman