DRN-3768288

The complaint

Mr U has complained about the way that National Westminster Bank Plc (NatWest) resolved the mis-sale of his payment protection insurance (PPI) policy.

What happened

In 2013, NatWest wrote off Mr U's loan, choosing not to chase him anymore for the outstanding balance of around £17,000.

In 2022, following a complaint about the sale of PPI, Mr U accepted an offer of around £2,700 in PPI compensation. NatWest wrote that all PPI payments are subject to the clearance of any outstanding debts.

NatWest then used the £2,700 of PPI redress to reduce the outstanding balance of the loan.

Mr U complained. Our adjudicator looked into things independently and didn't uphold the complaint. Mr U disagreed with the adjudicator's opinion, so the complaint's been passed to me to decide.

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 certainly understand why Mr U would prefer to receive the PPI compensation directly. But I think it's fair for NatWest to use the compensation to reduce Mr U's debt to them – I'll explain why.

NatWest have what's called the right to "set off" – to use the money they owe Mr U to reduce the money that Mr U owes them.

When Mr U's loan was written off, the debt did not cease to exist. It continued to exist, and Mr U still owes it – it's just that NatWest decided not to chase him or to take certain legal enforcement action anymore.

So while NatWest owed Mr U about £2,700 for the PPI, Mr U still owed NatWest about £17,000 for the loan he never repaid. So it seems both fair and practical to use one debt to reduce the other.

Mr U said NatWest never contacted him to say the loan was still outstanding. But the loan still existed even if NatWest hadn't contacted him about it in a while, and NatWest were still allowed to set off his PPI compensation against the loan.

Similarly, Mr U said NatWest should have contacted him before using set off. Having looked at the relevant policy, I can see that applies to open, active accounts. But it's not required to notify a customer before using set off to pay an account that was defaulted and written off, such as this loan. Further, it looks like NatWest did notify Mr U of the potential set off when they told him his PPI compensation would be subject to clearing any outstanding debts first – and this loan was still outstanding. And ultimately, it was fair for NatWest to set off the compensation here, since Mr U owed them more money than they owed him. I don't think that the notification requirements made a significant difference to the fairness of it here.

I understand that Mr U is worried about this affecting his credit file. I hope I can reassure him that since the loan defaulted more than six years ago, it has fallen off his credit file and will not be visible to lenders at all. By setting off his PPI compensation, NatWest did not create any second default, and it will not affect his credit file.

In summary, I think it was both practical and fair for NatWest to use what they owed Mr U to reduce the much larger amount he still owed to them. And so while I know this will come as a disappointment to Mr U, I don't think NatWest need to pay him directly.

My final decision

For the reasons I've explained, I don't uphold Mr U's complaint in this case.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr U to accept or reject my decision before 14 December 2022.

Adam Charles
Ombudsman