

The complaint

Miss G complains that Lloyds Bank PLC mishandled its recovery of funds lent to her under a Bounce Back Loan, and in particular that it incorrectly advised her that she was entitled to money held in her account that it subsequently used to repay a debt.

What happened

Miss G banked with Lloyds, holding a number of personal and savings accounts.

In June 2020, Miss G successfully applied to the bank for a £50,000 loan under the Bounce Back Loan Scheme, which had recently been launched by the government to help small businesses cope with the impact of the coronavirus pandemic. On receipt of the loan, Miss G paid around £10,000 to her savings account, and proceeded to use the remainder for personal expenditure including the purchase of Premium Bonds and the repayment of credit card debts with other providers.

Following a review of the loan application and use of the funds, Lloyds concluded that Miss G had provided inaccurate information when applying – in particular declaring a turnover in excess of £200,000 to qualify for the £50,000 loan – and then hadn't used the funds for business purposes as required. So the bank terminated the loan agreement and sought to recover what funds it could from Miss G's accounts.

Lloyds recovered around £10,000 from Miss G's savings account and around £11,000 from her personal account – with the remainder having been spent, and therefore remaining outstanding. However, the bank didn't apply the £10,000 recovered from Miss G's savings account to the Bounce Back Loan debt as intended. So when the debt was subsequently transferred to a debt collection agency, they advised Miss G that the amount owing was around £39,000.

This caused the sequence of events that are at the heart of Miss G's complaint. On being told that she owed £39,000, Miss G called Lloyds in June 2021 to query things with the £10,000 from her savings account seemingly unaccounted for. While that query was under investigation, Miss G received an account statement that showed an overdrawn balance of £16,000. And when calling the bank to query this, she says she was told that the account was actually in credit by £10,000 – and that she was entitled to withdraw this. But the bank then changed its position and said that the funds couldn't be withdrawn and would be applied to the debt owed by Miss G on the Bounce Back Loan.

Miss G doesn't believe Lloyds was entitled to reclaim the £10,000 funds in the manner it did, as these didn't originate from the loan – which had since been transferred to a debt collection agency with an agreed debt of £39,000. And she says that she acted in reliance on Lloyds' assurance that she would be able to utilise the funds and has been left worse off as a result, as she spent money on a holiday and a new car that she otherwise would not have done. The money that she spent had previously been earmarked for urgent home improvements, so she was then unable to complete that work. And she says that the whole situation has caused her significant distress, impacting her mental and physical health.

In response to Miss G's complaint, Lloyds accepted that there were some areas where it had let her down. The bank acknowledged errors in its handling of the £10,000 in Miss G's savings account, which it hadn't properly applied to the Bounce Back Loan debt initially. It agreed that it had given poor service in light of that, which included incorrectly telling Miss G that she could access the funds. But it said that, ultimately, the £10,000 was rightly applied to the loan debt. For the distress and inconvenience caused by the shortcomings in its service, Lloyds paid Miss G compensation of £750.

My provisional decision

I issued a provisional decision last month, setting out why I didn't intend to uphold Miss G's complaint. I said:

I understand that Miss G doesn't dispute Lloyds' entitlement to cancel and recall the Bounce Back Loan in light of her apparent ineligibility for it, so I'm not going to comment on that in any detail here other than to confirm my view that the bank did nothing wrong in taking these actions in the circumstances.

Once recalled, the £50,000 loan was repayable immediately. Under the terms and conditions of both the loan agreement and Miss G's accounts with the bank, Lloyds had the "right of set off". In other words, it was entitled to use any funds that Miss G held in accounts with the bank to repay any debts it was owed. So Lloyds didn't do anything wrong when initially removing the funds held in Miss G's current and savings accounts in order to pay down the amount she owed under the Bounce Back Loan agreement.

The £10,000 that was removed from Miss G's savings account wasn't applied to the debt at the time. Miss G argues that the delay – and the matters that superseded it, including the transfer of the debt to a debt collection agency – mean that the bank no longer had the right to use these funds to pay down the loan debt. But I don't think the delay or any of the subsequent events ought fairly to remove Lloyds' entitlement to recover the funds that had been illegitimately obtained and utilised – particularly as the savings account balance was comprised almost entirely of funds transferred from the Bounce Back Loan. So I don't think Lloyds did anything wrong when declining to release the £10,000 to Miss G subsequently, and instead using this to reduce the amount she owed under the loan agreement.

There was clearly an error on Lloyds' part in failing to apply the £10,000 to the loan debt when first removed from Miss G's savings account – which was subsequently moved to her business account. Miss G's main cause for concern is the subsequent conversations she had with Lloyds about the funds, which she says led her to believe that the money would be returned to her. So I've carefully considered what she and Lloyds have said and provided to us about these interactions, which has included listening to recordings of a number of the telephone conversations between them.

Having done so, I don't think it was reasonable for Miss G to believe that the £10,000 in question would be made available to her. I say this because:

- I've not found that Lloyds explicitly confirmed to Miss G that the £10,000 at issue would be released to her. On discovering that the £10,000 hadn't been applied to the loan debt, Miss G asked Lloyds on 18 June 2021 whether it would release the funds to her – and was told that wouldn't be possible. A complaint was raised in order for the position to be confirmed.

- While the complaint was pending, Miss G is told on a couple of occasions between 10 and 12 July 2021 that she had a credit balance of £10,000 and – separately – that it should be possible to transfer a credit balance to other account. But those conversations were somewhat hypothetical, in that Miss G didn't share the full context or ask an explicit question as to whether she was entitled to the funds in light of the Bounce Back Loan situation. And the advisers she spoke with were evidently unaware of the loan debt and related issues when responding to her fairly generic queries. Ultimately, when – at the end of each of those calls – it came to attempting the transfer of funds that Miss G was seeking, she was told by each adviser that they were unable to complete it and was referred on to other departments for advice.
- Miss G was made aware on 12 July that she needed to speak to the bank's business team. And by Miss G's own admission, that conversation ended on the basis that the adviser would need to review the notes on her account and call her back to proceed further. Matters were then superseded by Miss G's call to the complaints team on 13 July, when she was advised that the funds were being withheld and ringfenced for the loan debt, and that it was unlikely they'd be released to her. Miss G was evidently aware by 17 July that the funds had been applied to the loan debt.
- Miss G would also have been aware that the £10,000 in question had been removed in connection with the termination and recall of the Bounce Back Loan, that the funds originated from her misuse of that loan and that she still owed around £29,000 under that agreement. So I think it is reasonable to suggest that she would've had some cause to suspect that the bank might not be willing to release these funds to her.

As I don't think it was down to an error on Lloyds' part that Miss G believed she would be receiving the £10,000 in question, it follows that I don't think the bank is responsible for the consequences of any actions that Miss G took while under this impression. And so while I'm sorry to read of the impact that these matters have had on her, I'm not intending to require the bank to compensate her for the losses that she's claimed.

Lloyds has already paid Miss G compensation of £750 for the impact of errors in its handling of the matter. The failure to apply the £10,000 to the loan debt when first removed caused, and was compounded by, a number of further errors – most notably:

- Miscommunication over the outstanding debt that Miss G owed – quoted as £50,000 in the initial demand, and then £39,000 when with the debt collection agency.
- A delay in properly closing Miss G's accounts, with residual (but nominal) balances being held for longer than necessary and correspondence about the accounts continuing to be issued.
- Writing to Miss G to advise she was overdrawn by £16,000, which was patently wrong.

All of this meant Miss G was engaged in unnecessary additional contact and correspondence with the bank. While I recognise that this would've caused Miss G some understandable concern and inconvenience, taking all of the circumstances

into account I think the £750 that Lloyds has already paid represents fair compensation. I'm therefore not intending to require the bank to take any further action in response to this complaint.

Miss G didn't accept my provisional decision, but didn't respond with any further information for me to take into account. Lloyds confirmed it had nothing further to add either.

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 so, and with no new information or evidence for me take into account, I see no reason to depart from my provisional decision. So this final decision simply confirms my provisional findings, as set out above.

My final decision

For the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 21 December 2022.

Ben Jennings
Ombudsman