

## The complaint

A limited company, which I'll refer to as 'D', complains that National Westminster Bank Public Limited Company ("NatWest") unfairly applied a third-party payment made in error to a closed account to offset D's Bounce Back Loan, and did not return the remaining funds within a reasonable time.

D's complaint is brought to this service by its director, whom I'll refer to as 'Mr A'.

## What happened

D held a business current account and a Bounce Back Loan ("BBL") with NatWest. In 2024, NatWest asked D to provide updated "know your customer" information. When this wasn't provided, NatWest issued notice that D's business account would be closed. D's business current account was then closed in December 2024.

At the time D's current account was closed, D's BBL was in arrears and was later defaulted. This meant the full outstanding balance of the loan, which was approximately £12,000, became repayable. Despite this, NatWest returned two third-party payments totalling £10,587.67 to D in January 2025 rather than applying them to the loan balance.

In August 2025, Mr A contacted NatWest and agreed a repayment plan for the defaulted BBL. Under this arrangement, D agreed to make payments of £30 per month, to be reviewed after six months. NatWest accepted this plan on the basis that they had been told that D did not have access to sufficient funds to repay the full balance at that time.

On 18 August 2025, a client of D made a payment of £14,400 to D's closed NatWest business account in error. NatWest received the payment and held the funds in a sundry account, as D's current account was no longer operational. NatWest did not notify D or Mr A at that point that the payment had been received.

Mr A became aware of the payment in early September 2025 and contacted NatWest to request the funds be returned. NatWest initially indicated that the payment could be returned to the sender. Mr A then asked NatWest to send the £14,400 to be returned to D's new business current account held elsewhere.

NatWest reviewed this request and decided not to return the funds to D. They considered that, as D had an outstanding and defaulted BBL and had asked for the funds to be paid back to the business, it was appropriate to apply the payment to reduce the loan balance using their right of set-off. NatWest therefore applied the majority of the £14,400 to the BBL, the balance of which had reduced to £10,863.31 at that time.

After the BBL balance was reduced, a surplus of £3,536.69 remained. NatWest did not return this surplus to D immediately. Following Mr A's complaint and subsequent involvement from our service, NatWest returned the surplus funds to D in November 2025.

Subsequently, one of our investigators looked at this complaint. They didn't feel that NatWest had acted unfairly by using the received funds to clear D's outstanding BBL

balance, but they did feel that NatWest had acted unfairly by not returning the surplus to D earlier than they had which they felt had caused D some inconvenience for which it should be compensated. Our investigator therefore said that NatWest should pay £300 compensation to D along with 8% interest on the surplus amount for the time they had not returned it, and that NatWest should reimburse any additional payment plan payments to D that had been made but which were no longer necessary.

NatWest accepted the view of the complaint put forwards by our investigator, but Mr A did not. The complaint was therefore escalated to an ombudsman for a final decision.

### **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, I note that in his submissions to this service, Mr A has made several points of a legal or regulatory nature. I'd therefore like to begin by confirming that this service isn't a regulatory body or a Court of Law and doesn't operate as such. This means that it isn't within my remit here to decide whether NatWest have or haven't unlawfully or in breach of regulatory requirements.

Instead, this service is an informal, impartial dispute resolution service. And while we do take relevant law and regulation into account when arriving at our decisions, our remit is focussed on determining whether we feel a fair or unfair outcome has occurred – from an impartial perspective, after taking all the circumstances and factors of a complaint into consideration.

I also note that Mr A has provided several detailed submissions to this service regarding D's complaint. I'd like to thank Mr A for these submissions, and I hope that he doesn't consider it a discourtesy that I won't be responding in similar detail here. Instead, I've focussed on what I consider to be the key aspects of this complaint, in line with this service's role as an informal dispute resolution service.

This means that if Mr A notes that I haven't addressed a specific point he's raised, it shouldn't be taken from this that I haven't considered that point. I can confirm that I've read and considered all the submissions provided by both Mr A and NatWest. Accordingly, if Mr A notes that I haven't responded to a specific point, I confirm that I have considered that point but don't feel it necessary to address it directly in this letter to arrive at what I consider to be a fair resolution to this complaint.

There's no dispute that D owed NatWest the balance of the Bounce Back Loan. The loan had been defaulted in 2024, which meant the full outstanding balance became repayable at that point.

In August 2025, NatWest agreed to accept a repayment plan of £30 per month. I consider this was a forbearance arrangement put in place on the understanding that D didn't then have access to sufficient funds to repay the loan in full. I don't consider this arrangement prevented NatWest from later applying funds to the loan balance if circumstances changed.

When NatWest later received the £14,400 payment, Mr A asked for those funds to be returned to D rather than to the original sender. In doing so, I think it was reasonable for NatWest to treat the funds as belonging to D and to then conclude that D had access to funds sufficient to repay the outstanding loan balance. In those circumstances, I don't consider it unfair that NatWest decided to apply the payment to reduce the defaulted BBL balance using their right of set-off.

In reaching this decision, I've also considered Mr A's reference to the Payment Services Regulations 2017. While I agree NatWest should have acted more promptly and clearly once the payment was received, which I address below, I'm not persuaded that Regulation 90 meant NatWest was required to return the funds to D once Mr A had asked for them to be paid to the business and D had an outstanding defaulted debt. Accordingly, I don't consider this point alters what I consider to be a fair outcome in the circumstances.

Mr A has argued that NatWest had previously returned third-party payments despite the BBL being in default, and that they therefore should have taken the same approach on this occasion. However, I'm satisfied that NatWest's decision to return the prior funds was a commercial choice which didn't permanently waive their right to apply later payments to the debt. I'm also satisfied that NatWest were within their rights to make a different choice in this instance. And for these reasons, I don't consider NatWest acted unfairly by applying the requisite part of the £14,400 payment to clear D's outstanding BBL balance.

However, having applied the payment to the loan, NatWest retained £3,536.69 which they were not entitled to keep. This surplus should have been returned to D promptly, but NatWest didn't return the surplus until November 2025, several months after receiving the payment and after D had complained to themselves and after our service had become involved. I don't feel that delay was reasonable. NatWest also didn't clearly explain to D at the time how the surplus had been calculated or when it would be returned, which added to D's inconvenience.

Accordingly, I'll be upholding this complaint in D's favour on a partial basis. That is, I will not be upholding the primary aspect of D's complaint, that NatWest used the received money to clear D's BBL balance, because I don't feel that NatWest acted unfairly by doing so. But I will be upholding this complaint on the basis that NatWest didn't return the surplus money to D sooner, which unfairly prevented D from having access to that money and which caused D inconvenience it shouldn't have incurred.

### **Putting things right**

As this complaint has been brought by D, a limited company, I can only consider the impact on the business itself. While I understand Mr A has found this matter personally frustrating, I can't take account of his personal feelings or distress. Any award I make must relate solely to the inconvenience caused to D.

To put matters right, NatWest must:

- pay 8% simple interest on the £3,536.69 surplus from 18 August 2025, the date they should reasonably have returned it, until 24 November 2025, the date it was paid back to D, to reflect the loss of use of money that belonged to the business;
- pay £300 compensation to D for the inconvenience caused by the delay, the lack of clear communication, and the false expectation created when D was initially told the payment could be returned; and
- refund any payment-plan payments D made while this complaint was ongoing which were no longer necessary once the BBL balance had been cleared.

I appreciate this may not be the outcome Mr A was wanting, but I hope he will understand, given what I've explained and the impartial role of this service, why I've made the final decision that I have.

**My final decision**

My final decision is that I uphold this complaint against National Westminster Bank Public Limited Company on the basis described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask D to accept or reject my decision before 11 May 2026.

Paul Cooper  
**Ombudsman**