

The complaint

Mr R complains that Lloyds Bank PLC (“Lloyds”) were unreasonable to use a refund to offset the balance on an account they’d already accepted a full and final settlement towards.

What happened

In March 2023 Mr R made an offer of £3,000 in full and final settlement of a debt of £6,551.60 that he’d had with Lloyds for some years. Lloyds accepted that offer. They explained that *“This means that you didn’t pay the full amount owed but the account is now settled, and no further payments are expected”*.

Later that year Lloyds responded to a complaint Mr R had made to them. They accepted that they’d provided credit irresponsibly and they agreed to refund a little over £5,500 but part of that refund was used to repay the outstanding balance of £3,551.60 on Mr R’s original debt.

Mr R thought that was unfair as his payment of £3,000 had been made in full and final settlement of that debt. He escalated his complaint to this Service but our investigator didn’t support it. He said that it was his understanding that the partial settlement meant that the debt wouldn’t be written off, but the business agreed that it wouldn’t pursue. He said that in those circumstances, it was reasonable for Lloyds to use the refund to offset that balance.

Mr R didn’t agree with the investigator, and he asked for a decision by an ombudsman.

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 know it will disappoint Mr R, but I don’t think Lloyds have been unreasonable here and I’m not asking them to take any action. I’ll explain why.

Where the information I’ve got is incomplete, unclear, or contradictory, as some of it is here I have to base my decision on the balance of probabilities.

I’ve read and considered the whole file, but I’ll concentrate my comments on what I think is relevant. If I don’t comment on any specific point it’s not because I’ve failed to take it on board and think about it but because I don’t think I need to comment on it in order to reach what I think is the right outcome.

When Mr R made his offer of settlement he explained that:

“I am making this offer on the clear understanding that, if you accept it, neither you nor any associate company will take any other action to collect or enforce this debt in any way and that I will be released from any liability.”

Lloyds letter in response to that offer said:

“We're happy to accept the amount you suggested. This means that you didn't pay the full amount owed but the account is now settled and no further payments are expected. The partial settlement doesn't change the default information which will stay on your credit file for six years from when it was added”.

I don't think Lloyds made it clear that they would ever seek payment of the balance of the debt. Quite the contrary, I think their letter and Mr R's letter suggested that a £3,000 payment would be the end of the matter.

However, Lloyds decided it ought to refund a total of £4,100 it had charged Mr R, and it added interest of £1,400 to that - a total of £5,500. The charges that Lloyds was refunding made up the majority of the £6,500 balance that was outstanding at the start of the agreement and Mr R didn't pay all of that. It can't be fair and reasonable to refund to Mr R something he didn't pay, and in those circumstances, I don't think it was unreasonable for Lloyds to retain part of that refund.

I'm not, therefore, asking them to take any action.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 12 August 2024.

Phillip McMahon
Ombudsman