

The complaint

Mr H complains that Santander UK Plc defaulted his account.

What happened

Mr H opened a Santander 123 student account in 2014. The account terms and conditions said that the account would automatically be converted into a graduate account when he graduated. Mr H graduated in 2017, but his account was not converted into a graduate account until 2019.

The terms and conditions of the graduate account say that it must be used as the customer's main current account, and that his salary must be paid into it. Failure to regularly pay his salary into the account may result in it being closed (with two months' notice). After two years as a graduate account, the account is automatically converted again, this time into an everyday current account, which has no requirement to have funds regularly paid into it. Mr H says that his account should therefore have become an everyday current account in 2019, on or around the second anniversary of his graduation. Mr H says this matters because such an account is not considered to be dormant unless it has not been used for a year, unlike a graduate account.

In December 2019, Mr H stopped paying his salary into his account, and Santander decided to close the account. At that time, the account was overdrawn by nearly £500 (the overdraft limit), and so the account was sent to collections. Santander tried to contact Mr H about this, but was unsuccessful, and it is not in dispute that Mr H had not kept his contact details for that account up to date. He says that was because he believed the account to have been closed towards the end of 2019.

In June 2020, Santander defaulted the account and reported the default to the credit reference agencies. Mr H discovered this a few days later, when his mortgage application was declined. He immediately repaid the outstanding balance, but he complained when Santander refused to remove the default from his credit file

Mr H argued that if his account had been converted into an everyday current account in July 2019, then Santander would have written to him about the changes to his overdraft facility (which is free for a graduate account but incurs fees in the everyday current account). He says that he would have received that letter because Santander still had his correct and up to date contact details at the time, and then he would have paid off the overdraft and closed the account. Alternatively, even if he had not closed the account, the account would have been allowed to remain unused for a year before being treated as dormant and sent to collections, at the end of 2020 instead of 2019. By this time, Mr H's mortgage application would have been granted and he would have bought his new home.

Santander insisted that the default had been correctly applied, and that it didn't matter what kind of account Mr H had or should have had. It had been his responsibility to keep his contact details up to date, and then he would have been aware that his account was in collections. It said the dormancy process and timescales were the same for both kinds of account. Being dissatisfied with that answer, Mr H brought this complaint to our Service.

Our investigator did not uphold this complaint. She said that on Mr H's application form for the student account, he had stated that he expected to graduate in 2018. She therefore thought that Santander had been entitled to presume that that was when he would graduate, as nobody had told it that he had graduated a year early, in 2017. This meant that his account was not supposed to have become an everyday current account as soon as 2019 – that had not been due to happen until July 2020, when it would have been too late to matter, as by then his contact details were no longer up to date. She did not think it was Santander's fault that Mr H had thought his account was closed and had not told the bank his new contact details.

Mr H did not accept that opinion. He said he had another account with Santander, which had always had his up to date contact details on it, and so when Santander had received no response to its letters and text messages, it should have tried to contact him using the details on his other account. He did not accept that the onus had been on him to tell Santander when he had graduated, because Santander's own terms and conditions said the account conversion would happen automatically, and that should mean what it says. He asked for an ombudsman to review his 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.

Having done so, I do not uphold this complaint. I will explain why.

I don't think Santander completely understood Mr H's argument when it responded to his complaint in its final response letter. I accept that the dormancy process is the same for both types of account, but the point is that an everyday current account is not deemed to be dormant until there have been no withdrawals or deposits (other than interest) for a whole year, while a graduate account can be closed as soon as the account holder's salary stops being received. So if I accepted Mr H's argument that he should have had an everyday current account from around July 2019, instead of a graduate account, then that account would not have been sent to collections in December 2019, and it would not have been defaulted in 2021, instead of 2020. He would not have missed out on his mortgage, whether or not Santander had been able to contact him.

However, I do not agree that Santander had to convert Mr H's student account into a graduate account in 2017, when he graduated a year early. He had declared on the account application form that he expected to graduate in July 2018, so I think Santander was entitled to treat that as the date when it would convert the account, in the absence of receiving any information about Mr H graduating early. It is not in dispute that nobody told Santander when Mr H graduated.

I appreciate Mr H's argument that the relevant clause in the student account terms and conditions says, unambiguously, that the account will "automatically" be converted into a graduate account "when you complete your studies." However, there is nothing in the terms and conditions to say that either Mr H or his university would tell Santander when this occurred, or that any such arrangement was in place or would be put in place. It follows that the only information Santander could possibly know about when Mr H graduated was the date he had put on his application form when he opened the account in 2014, unless somebody pro-actively contacted Santander to let it know that he had graduated a year earlier than expected.

Mr H knew that he had told Santander that he expected to graduate after four years and not three. So I think that if he wanted to have a graduate account a year early, he should have checked with Santander that this was definitely going to happen. I think that he has relied too much on the word “automatically.”

Santander did make a mistake, in that it did not convert Mr H’s student account into a graduate account until 2019, a year later than it was supposed to (and two years after he actually graduated). That has not been explained, and Santander has conceded that this was an error on its part. However, I don’t think that this error has made a difference to anything that happened since. Even if the account had been converted when it was supposed to be (2018), then it would still have been a graduate account in December 2019, when the account was closed, and all of the subsequent events would still have proceeded as they in fact did.

Whenever the account was, or should have been, converted to a graduate account, and then converted again into an everyday current account, would have been irrelevant if Mr H had kept his contact details up to date. Whatever kind of account he would or should have had during the first half of 2020, Santander would still have sent him a default notice, and other correspondence about the outstanding overdraft balance (by post and by text messages to his phone). He would then have settled the debt before his account was defaulted. It is not Santander’s fault if he thought his account was closed when it wasn’t. Santander hadn’t told him it was closed.

Santander has explained that the whole process of sending the account to collections, serving a default notice, and then defaulting the account is automated. This process does not look up contact details recorded on other Santander accounts which are not also in collections. Mr H’s other account was not in collections, and so although it did have his up to date details, it was not consulted. I accept that explanation, since there is no evidence to contradict it. I therefore do not think that Santander was wrong to default the account, or that it failed to follow its procedures, or that the default is an inaccurate record of what happened. It follows that I cannot tell Santander to remove it.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr H to accept or reject my decision before 10 March 2021.

Richard Wood
Ombudsman