

Complaint

Miss O has complained about an overdraft Bank of Scotland (trading as “Halifax”) provided to her. She says the overdraft was unaffordable and shouldn’t have been provided.

Background

Halifax provided Miss O with a student overdraft for £1,000.00 in February 2017. The overdraft was to be interest and fee free for at least the duration of Miss O’s studies provided she stayed within her limit.

One of our adjudicators reviewed what Miss O and Halifax had told us. And she thought Halifax hadn’t done anything wrong or treated Miss O unfairly. So she didn’t recommend that Miss O’s complaint be upheld. Miss O disagreed and asked for an ombudsman to look at her complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss O’s complaint.

Halifax needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Halifax needed to carry out proportionate checks to be able to understand whether Miss O could afford to repay before providing any credit. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Halifax says it agreed to Miss O’s application after carried out a credit search. On the other hand, Miss O says she had defaulted a number of times on previous credit and so shouldn’t have been lent to.

I’ve carefully thought about what Miss O and Halifax have said.

I have to start by saying that Miss O was borrowing a relatively low amount and wouldn’t have had to pay any interest or charges for some time provided that she kept within her overdraft limit. I think this is important context to bear in mind in this particular case.

I accept that Halifax’ searches may not have picked up everything about Miss O’s circumstances. But having looked at the copy of Miss O’s full credit file, which she provided

us with, I'm satisfied that there were a number of defaults present at the time and Halifax would have seen at least some of this.

That said, I'm mindful of what Miss O has said about her circumstances at the time and that she was entering full time education. And in these circumstances, where she was unlikely to earn for some time, it's difficult for me to agree that agreeing this overdraft was wholly unreasonable given it would provide her with some breathing space and was a far better alternative to any other alternative sources of credit Miss O would more likely than not have turned to.

So overall while I do have some concerns that Halifax doesn't appear to have placed much weight on Miss O's credit file at the time, bearing in mind the circumstances and the type of facility it agreed to, I don't think that Halifax treated Miss O unfairly or unreasonably when providing her with an interest free overdraft. And I'm not upholding Miss O's complaint.

I appreciate this will be very disappointing for Miss O – especially as she has referred to having had complaints about irresponsible lending on other products upheld. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss O's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O to accept or reject my decision before 15 November 2021.

Jeshen Narayanan
Ombudsman