

The complaint

Ms A has complained that The Co-operative Bank Plc (“Co-op”) continued charging her excessive amounts for her overdraft when she was in financial difficulty.

What happened

Ms A complained to Co-op that the charges and fees applied to her account relating to her overdraft facility were making her financial difficulties worse. Co-op didn’t uphold the complaint. And as Ms A was dissatisfied she referred the complaint to our service.

Ms A’s complaint was considered by one of our adjudicators. He thought that Co-op ought to have realised that Ms A was experiencing financial difficulty by 1 February 2018 and so shouldn’t have added any more interest, fees and charges from this point onwards. Co-op didn’t agree so the case was passed to 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.

Co-op will be familiar with all the rules, regulations and good industry practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don’t consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I’m intending to find that Co-op acted unfairly when it continued charging overdraft interest and associated fees after 1 February 2018. By this point, it ought to have been clear that Ms A was in no position to sustainably repay what she owed within a reasonable period of time.

I say this because I think the way Ms A was using her account by this time should have indicated to Co-op that Ms A’s use of her overdraft was unsustainable. Ms A’s statements show that she was regularly relying on payday lenders or other high cost borrowing. In these circumstances, Co-op ought to have realised that Ms A was at a significant risk of being unable to repay what she already owed. I also think it’s worth noting that for much of the previous year Ms A was ‘hardcore borrowing’. In other, words she often didn’t see or maintain a credit balance for an extended period of time. Co-op’s own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. So I think that Ms A’s overdraft usage should have prompted Co-op to have realised that she wasn’t using her overdraft as intended. With all of this in mind, I think Co-op should have stopped providing the overdraft on the same terms and treated Ms A with forbearance rather than charge even more interest, fees and charges on the overdraft.

Co-op has commented that Ms A wasn’t willing to engage with it to discuss her financial situation, and that it nonetheless did ultimately cap the charges being applied to her account. But regardless of whether Co-op had been given detailed information about Ms A’s circumstances I think it should have been clear from the way she was managing her account

that there was a problem. As Co-op continued charging Ms A in the same way, regardless of whether those charges were capped or not, I think it failed to act fairly and reasonably.

Ms A ended up paying additional interest, fees and charges on her overdraft and this ended up exacerbating difficulties she already had in trying to clear it. So I think that Co-op didn't treat Ms A fairly and that she lost out because of what Co-op did wrong. And this means that it should put things right.

Fair compensation – what Co-op needs to do to put things right for Ms A

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Ms A's complaint for Co-op to put things right by:

- Reworking Ms A's current overdraft balance so that all interest, fees and charges applied to it from 1 February 2018 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Co-op should contact Ms A to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Ms A's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in February 2018.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Ms A along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Co-op should remove any adverse information from Ms A's credit file.

† HM Revenue & Customs requires Co-op to take off tax from this interest. Co-op must give Ms A a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Ms A's complaint. The Co-operative bank Plc should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 14 October 2021.

Sophie Mitchell
Ombudsman