

The complaint

Miss R has complained that Bank of Scotland plc (trading as Halifax) was irresponsible to give her an overdraft given her financial circumstances at the time. She says that she has asked for help to repay the overdraft but that the assistance Halifax has offered has not been good enough.

What happened

Miss R complained to Halifax about the overdraft facility on her account. She says that her financial situation means Halifax should not have allowed her to borrow so much. Miss R says that when she asked for help Halifax didn't do enough to assist her, she says it only agreed to a reducing overdraft limit at £35 per month, and Miss R says this is unaffordable to her. She would like Halifax to do more to help her with her overdrawn balance.

Halifax didn't uphold the complaint, and as Miss R was dissatisfied with Halifax's response she referred the complaint to our service.

Miss R's complaint was considered by one of our adjudicators. She explained that she felt Halifax had not been irresponsible to give Miss R the overdraft facility on her account. But she did feel that when Miss R contacted Halifax to ask for help in May 2021 it could have done more. So she recommended that Halifax refund to Miss R any charges or interest applied to her account from May 2021 onwards.

Halifax agreed with the adjudicator's findings, it confirmed it would be refunding the interest and charges to Miss R and would start the process of defaulting her account. Halifax also explained that if a default was ultimately registered then it would be backdated to August 2021, to reflect what would have happened if Halifax had started taking action in May 2021. Miss R remained unhappy, 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.

Having done so, I think that the offer Halifax has now made is a fair way to resolve this complaint, I'll explain why.

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 R could afford to repay before advancing 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.

With everything I've seen, I'm satisfied that Halifax was not unreasonable to offer Miss R the overdraft facility it did, which she increased several times in March and April 2020 up to a maximum of £1,500. I say this because at that time Miss R's account didn't show any clear signs of financial difficulty or that she was having problems managing her account, and the information she gave Halifax during her application (and the income and expenditure Halifax could see on her bank statements) suggested that the overdraft would be affordable to her at that time.

However, Halifax has an ongoing responsibility to ensure that an overdraft remains affordable. And when Miss R contacted Halifax in May 2021 to ask for help with her account, I agree with our adjudicator that Halifax should have done more to assist Miss R.

I say this because by this point, Miss R was hardcore borrowing. In other words she hadn't maintained a credit balance for an extended period of time. And Halifax' own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure.

I can see that when Miss R contacted Halifax in May 2021 it did refund around £100 of charges that had been applied to Miss R's account in the previous couple of months. Halifax also put a hold on her account at that time to stop any further charges being applied for 90 days. But I agree with our adjudicator that this short-term help didn't go far enough. I think Halifax should have realised by this stage that Miss R wasn't using her overdraft as intended, and that she might struggle to repay it within a reasonable amount of time, and so it shouldn't have continued offering it on the same terms.

When the hold on Miss R's account expired in August 2021 she once again began incurring charges, and while Halifax has refunded some of those already, I agree that it would be fair for it to refund the remaining charges applied since May 2021.

Halifax has confirmed that it is happy to refund these charges, and that it will use them to reduce Miss R's outstanding balance. Halifax has also confirmed it will start the process of defaulting Miss R's account, and I think that it also a fair way for the bank to proceed. Miss R has said the arrangement whereby her overdraft limit is reduced by £35 per month was unaffordable to her, and defaulting the account will allow the bank more flexibility in agreeing an affordable repayment plan with Miss R. It will also ensure that Miss R's credit file shows an accurate record of her ability to repay this debt.

Putting things right

I'm satisfied that what Halifax has offered to do in this case is fair and reasonable. So as per Halifax's offer, I require it to:

- rework Miss R's account to remove interest and charges applied since May 2021;
- issue a 30-day notice to remove the overdraft facility, this will give Miss R 30 days in which to find alternative banking or repay the remaining overdrawn balance;
- if the balance is not repaid Halifax will then issue a formal demand setting out its intention to close the account and issue a default;
- if the account is defaulted with an outstanding balance then Halifax should work with Miss R to agree a repayment plan that is affordable and sustainable;

- any negative information, presently or subsequently recorded on Miss R's credit file, should be backdated as though the process of removing the overdraft limit and defaulting the account began in May 2021. This would mean if a default is applied this would be backdated to August 2021.

My final decision

For the reasons I've explained, I uphold Miss R's complaint and direct Halifax Bank Plc to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 14 April 2022.

Sophie Mitchell
Ombudsman