

The complaint

Mr M says that CO-OP Bank plc (“CO-OP”) irresponsibly approved an overdraft for him when he was already in arrears with the credit card he had with it.

What happened

Mr M applied and was approved for an overdraft of £500 with the CO-OP in September 2018.

CO-OP wrote to Mr M in August 2019 to advise his overdraft was due to expire on 2 September. Mr M got in contact with the CO-OP and explained his circumstances had changed - he'd become a carer - and was financially struggling and wished to set up a repayment plan.

CO-OP went through his income and expenditure and found there was no disposable income so put a hold on the account for 30 days - no interest and charges would be applied.

Following this a £500 overdraft was agreed reducing by £100 a month starting November 2019. This was adapted down to £50 and then £40 a month to give Mr M further breathing space following unexpected bills and him losing his job. Mr M paid the overdraft off by June 2020.

One of our adjudicators looked into Mr M's concerns and didn't think CO-OP had done anything wrong or treated Mr M unfairly. Mr M disagreed, so the complaint was passed to an ombudsman for a final decision.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Mr M's complaint. Having considered everything provided, I've decided not to uphold Mr M's complaint. I'll explain why in a little more detail.

CO-OP needed to make sure that it didn't lend irresponsibly. In practice, what this means is CO-OP needed to carry out proportionate checks to be able to understand whether Mr M would be able to repay what he was being lent before providing any credit to him. 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.

I've kept all of this in mind when thinking about whether CO-OP did what it needed to before agreeing to Mr M's overdraft. Mr M was given what was an open-ended credit facility. So overall this means the checks CO-OP carried out had to provide enough for it to be able to understand whether Mr M would be able to repay his overdraft within a reasonable period of time.

CO-OP has told us Mr M had previously had a £300 overdraft facility that had expired in 2012 and that he had applied for an overdraft in September 2016 but had been declined. But he was accepted for an overdraft the subject of this complaint because he had been continually operating his account in credit and his credit card with it had reduced substantially due to continued repayments from him and that there had been no indication of external issues on his credit file. And based on this information CO-OP was satisfied the £500 overdraft facility fell within its internal recommended lending limit to provide him with the overdraft facility he requested.

I've looked at Mr M's statements in the months leading up to the overdraft application and can see that Mr M was having regular credits to his account in excess of the overdraft limit and at any one time had a healthy credit balance on his account. I've also seen Mr M's credit report that shows at the time the overdraft was granted there wasn't any adverse information showing.

I accept that Mr M's financial position may well have been worse than the checks carried out or showed or in any information he disclosed to CO-OP at the time. And it is possible that further checks might have told CO-OP this. But CO-OP was reasonably entitled to rely on the credit check it carried out. Given the relatively low amount of credit being advanced and that there is no evidence of any adverse information shown on the credit check and Mr M had managed his account well in the previous months, I think CO-OP's checks went far enough.

I'd also expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly. Mr M got in touch with CO-OP following its letter informing him his overdraft was due to expire. I've listened to the recording of the phone conversation between Mr M and the CO-OP advisor. Mr M explains that when he applied for the overdraft his circumstances were "fantastic" but in the past few months he'd become a carer and was struggling. He also says he'd never had problems before and although he has a credit card with CO-OP he has no other debts.

The advisor went through his income and expenditure and as there was no current disposable income put a hold on Mr M's account for 30 days where no interest or charges would be applied – to allow Mr M some breathing space and for backdated benefits to come in. Following this as outlined above Mr M agreed an overdraft of £500 on a reducing basis and his overdraft was paid off by June 2020.

This is in-line with what I'd expect a business to do once it became aware a customer was suffering from financial difficulties – so I can't say CO-OP did anything wrong here.

This means that I don't agree CO-OP provided Mr M's with an overdraft facility unfairly or irresponsibly.

My final decision

For the reasons I've explained, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 July 2022.

Caroline Davies
Ombudsman