

The complaint

Ms R complains that National Westminster Bank Plc (“NatWest”) prematurely converted her student account to a standard current account, which meant she incurred interest on her overdraft facility when she shouldn’t have done.

What happened

Ms R held a student account with NatWest, with an interest-free overdraft facility that she utilised.

NatWest says it converted Ms R’s account to a standard current account in December 2018, understanding that Ms R had graduated and completed her studies in 2017. The change in account type meant interest was now applied to the overdraft.

Ms R says that NatWest made this change prematurely. She says she actually graduated in the summer of 2018, and that she notified the bank of this prior to her graduation when the bank first made her aware that it intended to convert her account. She says the bank’s error has caused her to incur an additional £1500 in interest on the overdrawn balance of her account.

As NatWest didn’t uphold Ms R’s complaint, she contacted us and one of our investigators looked into the matter. She forwarded confirmation of Ms R’s graduation in summer 2018 to the bank, and queried its standard practice for the conversion of student accounts. This prompted NatWest to reconsider its position. It said:

- After a student account holder graduated, their account would be converted to a graduate account. This account also had an interest-free overdraft facility.
- A graduate account would subsequently be converted to a standard current account after two years, with any overdraft facility then ceasing to be interest-free.
- As it could now see that Ms R had graduated in 2018, it accepted that she shouldn’t have incurred any interest on her overdraft for the two-year period thereafter. So it offered to refund the interest applied between December 2018 and December 2020. It calculated this to be just under £550.
- It said that the refund would be applied to the account balance, which would still be in debit. And it said that on acceptance of the offer, it would reduce Ms R’s overdraft limit by £500.

Our investigator thought NatWest’s offer was a fair way of putting things right. Ms R ought to have had an interest-free overdraft for two years after her graduation, and the bank’s proposal would put her in the position she’d be in if she had. In fact, it was a slight improvement – as it meant she’d actually not been charged interest on her overdraft between her graduation in July 2018 and December 2020.

Ms R didn't accept our investigator's view. She said that she'd made a number of attempts to resolve matters with NatWest since 2017 – including a previous complaint in addition to this one – and queried why the bank hadn't realised its error sooner. And she didn't think the amount of the refund covered the full amount of additional interest she'd incurred as a result of the issue.

So with no resolution, the complaint was passed to me to decide.

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.

Had things gone as they should have, Ms R would have had an interest-free overdraft facility for a further two years after she graduated. That's because her student account ought then to have been converted to a graduate account, which also benefitted from an interest-free overdraft for up to two years. She graduated in July 2018, so two years from then is July 2020.

NatWest's offer in response to this complaint puts Ms R in a slightly better position in that, in that it has offered to refund any interest applied to her overdraft up to December 2020. I think that is as much as I could reasonably require NatWest to do.

Ms R says that the amount of the refund that NatWest has quoted – of around £550 – doesn't cover the full amount of interest that she incurred between December 2018 and July 2022 (which totals around £1500). But the refund is only for interest up to December 2020, as that's when the two-year interest-free period available under the graduate account would've expired. From that point on, Ms R would always have had to pay interest on her overdraft balance in line with the bank's terms and conditions. So there's no basis on which I could fairly require NatWest to refund interest charged from December 2020 onwards.

Ms R also thinks NatWest should compensate her for its failure to deal with the matter earlier, as she says she has queried this with the bank on a number of previous occasions – including by way of complaint – since 2018. But NatWest says it has no record of any earlier contact and Ms R hasn't provided anything to substantiate her recollections either, despite the bank's invitation for her to do so this when it investigated this complaint. As I've not seen that Ms R made NatWest aware of her actual graduation date until she raised this complaint, I don't think the bank needs to pay any additional compensation on top of the interest refund.

Lastly, I note NatWest's comments to the effect that if Ms R accepts the offer, the refund amount will only be applied to the account balance (rather than paid separately to Ms R) and that it will immediately reduce Ms R's overlimit limit by £500. As it is a refund of interest charged to the account, it is right that this is simply an adjustment to the account balance rather than a separate payment to Ms R. However, I don't think there is any basis on which Ms R needs to agree to the reduction of her overdraft limit as a condition of the settlement. If the bank wishes to make such a change it should do so in line with the applicable terms and conditions, and its standard policies and procedures – which Ms R would be free to challenge in the usual way, such as by way of complaint, should she be unhappy with it.

My final decision

I uphold this complaint and require National Westminster Bank Plc to rework Ms R's account as if her overdraft facility had been interest-free between 12 December 2018 and 12 December 2020.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 13 February 2023.

Ben Jennings
Ombudsman