

The complaint

Miss R complains that overdraft facilities provided to her by Santander UK Plc were not affordable and caused her to incur fees, charges and interest that stretched her financial position, leading to the bank recording her account in default.

What happened

Miss R had a Santander current account. In July 2020 Santander approved a £500 overdraft facility on the account. The revised arrangements attracted a £10 monthly fee. The account generally operated in a credit position prior to the overdraft facility being approved. Miss R used the overdraft during 2020, although it was always repaid when her monthly salary was paid in.

However, during the early part of 2021 the account operated in the overdraft facility for a significant proportion of each month. The overdraft limit was increased to £550 the following March. But after the credit in December 2021, Miss R's salary stopped being paid into the account. And in early 2022, Miss R's balance exceeded the approved overdraft limit. From February that year Miss R started to repay the balance at £5 per month. The overdraft balance remained in an excess position until July 2022 when Santander terminated the facility and passed the balance to its recoveries team, recording the account as in default on Miss R's credit file.

Miss R is unhappy that the bank approved the lending, which she considers contributed towards the overall financial position she found herself in. She's referenced other borrowing she undertook during the material time, including credit cards and loans with Santander and other providers. She's sought reimbursement of charges, fees and interest associated with the overdraft, along with the removal of the default information from her credit file. She's said that other creditors agreed arrangements to avoid this happening, and she thinks it unfair that Santander took a different approach.

Our investigator didn't consider Santander had dealt with Miss R unfairly, either in its decision to approve the overdraft limits or in relation to the default it had recorded. She found that Santander had undertaken appropriate and proportionate checks based on the type of lending it was providing to Miss R.

Miss R responded to the investigator some time later, after we'd considered complaints she'd brought against Santander in relation to other borrowing she'd taken out with the bank. We'd upheld these complaints and Miss R questioned why the same outcome hadn't been reached in this case. She also queried the investigator's conclusion in relation to the default, saying that she had a debt management plan in place so the default should not have been recorded.

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.

I'm conscious that the outcomes on Miss R's other complaints have prompted her to query what might, at first glance, appear to suggest a similar outcome should apply to this complaint. But while the general Consumer Credit Sourcebook ("CONC") principle of undertaking a creditworthiness assessment applies to pre-arranged overdrafts, what might represent proportionate checks can depend on different factors from say, a fixed sum loan or a credit card.

For example, the type of credit, the credit limit and the amount of any repayments are all factors referenced in CONC 5.2A.20, which can be found in the Financial Conduct Authority (FCA) Handbook on the FCA's website. Miss R's overdraft, by its very nature, was a different proposition from her later loan and credit card arrangements. The issue at hand, then, is whether Santander undertook reasonable and proportionate checks in relation to the overdraft borrowing rather than whether it undertook the same checks as on her other forms of borrowing.

I've considered the steps Santander took in respect of the overdraft facility it approved in July 2020. It had, at that point, a fairly lengthy record of how Miss R had handled her current account. It also undertook a search of Miss R's history of how she'd handled previous credit. Neither of these in my view indicated any obvious cause for concern such that it should have prompted Santander to make further investigation. I find the bank didn't act unreasonably in making the decision to lend to Miss R.

The increase in March 2021 appears to me to have arisen in rather different circumstances. As I've noted, at that point Miss R's account had been overdrawn for much of the previous three months. So on the face of it, even a small increase of £50 might have been a cause for concern.

But looking at the date of the increase, this appears to have been in order to deal with a situation where Miss R's expenditure exceeded the agreed £500 limit. In such circumstances, CONC 5.2A.2(2) has the effect that Santander didn't need to undertake a creditworthiness assessment. So again, it would be wrong for me to conclude that the bank acted incorrectly in approving the increase.

I appreciate Miss R feels it was unfair (and unnecessary) for Santander to record the default. And I can understand why it's important to her that she maintains a good credit rating. But I don't think Santander's action in recording the default is inconsistent with the standards set out in CONC or other relevant guidance such as the Information Commissioner's Office ("ICO") Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies.

The ICO Principles say that where a debt management plan is agreed with a lender and payments under it are maintained, a default wouldn't normally be registered. However, while Miss R entered into a debt management plan administered by a third party debt organisation, it doesn't automatically follow that such an arrangement was agreed with Santander. The fact the bank accepted the token payments Miss R was able to make doesn't mean it agreed to them.

Further, it appears from the account statements that Miss R had stopped her regular monthly payments to the account. The credit file she's submitted indicates around the same time Miss R set up a current account with a different provider. The fact that regular credits had stopped going into the account, combined with what Miss R told Santander in 2022 about her financial difficulty, are no doubt connected to the bank's decision to terminate the overdraft facility. As an overdraft is repayable on demand and Miss R had already made clear to the bank she wasn't in a position to repay the balance in full, she would be in default of that obligation.

Taking all of this into account, I can see why there might be a difference between the way Santander reported Miss R's current account and the way it and other creditors reported the position on other forms of credit she owed. So while I understand her concerns, I don't find that the information Santander has recorded on Miss R's credit file means it has treated her unfairly, or that the bank's actions provide a basis on which I might require removal of the entry.

My final decision

For the reasons I've set out here, my final decision is that I don't uphold Miss R's complaint. I nevertheless hope that my explanation has been helpful to her in understanding why I've reached a different conclusion from colleagues who have dealt with her other complaints.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 22 September 2023.

Niall Taylor
Ombudsman