

The complaint

Mrs M complains that Barclays Bank UK PLC was irresponsible in its lending to her.

What happened

Mrs M says that when she was already struggling financially and was receiving correspondence from Barclays about this, it increased her overdraft limit to £5,000. She says she was in her overdraft every month from May 2017 to October 2019 and that in 2018, Barclays provided her with an £18,000 loan additional to the overdraft. She said she wanted the interest and charges refunded from when her overdraft limit was increased to £5,000.

Barclays issued a final response letter dated 30 June 2023. It said that as Mrs M's complaint was about the £5,000 overdraft facility which was provided more than six years before Mrs M raised her complaint, the irresponsible lending aspect of her complaint was out of scope for investigation. Regarding the charges that had been applied within the last six years it said these had been applied in line with the account terms and conditions.

Mrs M wasn't satisfied with Barclays' response and referred her complaint to this service.

Our investigator upheld this complaint. He didn't think that Barclays should have approved the overdraft limit increase to £5,000. He thought the information that Barclays knew, or ought to have known, about Mrs M's financial circumstances meant it should have concluded it was unlikely Mrs M would've been able to sustainably repay an overdraft, such as it had provided, within a reasonable period of time. He further said that by September 2018, Mrs M had been overdrawn continuously for around five months and there was no evidence that Barclays stepped in or looked to implement measures preventing further detriment.

Based on this our investigator recommended that Mrs M's current overdraft balance be reworked from the point that the £5,000 limit was implemented to one year of that date, and any interest, fees and charges applied to overdraft balances in excess of £4,200 (the previous limit) be removed. And that any interest, fees and charges applied from September 2018, to date, should be removed entirely.

Barclays didn't agree with our investigator's view. It said that Mrs M hadn't been continually overdrawn since June 2017 and instead the account had been in credit for periods of time, particularly when Mrs M had received some inheritance payments. It said her account had swung into credit when funds were paid in which reduced or removed the overdraft balance. Therefore, it didn't accept the account was in an overdrawn position for a sustained period. It also said that Mrs M was using the account for non-essential spending which was her choice, and she could have altered her spending and repaid the overdraft.

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.

Barclays will be familiar with all the rules, regulations and industry codes of 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.

Mrs M was provided with an overdraft more than six years before she raised her complaint. But her complaint isn't about the initial provision of the overdraft, but the increase applied in September 2017, when she says she was already struggling financially. This increase from an overdraft limit of £4,200 to £5,000 happened within six years of Mrs M raising her complaint. I have considered whether Barclays acted fairly and reasonably by providing this increase in credit.

The information I have seen includes statements from June 2017. Mrs M's account in June 2017, was overdrawn by over £3,600. From that point until the increase was applied, Mrs M was, in the main, operating in her overdraft and looking at the status of Mrs M's account for the period leading up to the overdraft limit increase, I think this does show her to have hardcore borrowing. I haven't seen the statements leading up to June 2017 but given the size of the overdraft at that time, I find it reasonable to accept that this had been the situation for Mrs M for an extended period. I have also considered the regular income into the account, and this consists of a monthly income of around £1,200 plus a rental income of around £200. Noting Mrs M's expenses, I do not find that this supports further credit being sustainably affordable.

Barclays has noted a payment into Mrs M's account in August 2017. This is for £10,000 and is recorded as 'inheritance'. I have considered whether the receipt of this payment changes my position above about further lending being unsustainable. And in this case, it doesn't. I say this because the inheritance was a one-off payment and while it resulted in Mrs M's account going into credit this was only for two days after which the account returned to being overdrawn and this situation continued until the overdraft limit increase (around which time Mrs M also took out a further loan).

Based on the above, I do not find that Barclays should have increased Mrs M's overdraft limit to £5,000 in September 2017. Because of this I agree with our investigator that Barclays should re-work Mrs M's current overdraft balance to reflect that the overdraft limit increase shouldn't have been applied.

Under the regulations, Barclays is required to monitor a customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties. While I think it likely that Mrs M's overdraft usage and repayment history may have shown concerns before June 2017, as I am only considering Mrs M's account for the six years prior to her complaint being raised and it is this time period that I have her account details for, I have considered at what point it would have been reasonable, after June 2017, for Barclays to have undertaken a review. In this case, as Barclays agreed an overdraft limit increase in September 2017, I think it reasonable that it would have monitored her account and undertaken a review within 12 months of this action.

Looking at Mrs M's statements from September 2017 to September 2018, her account started in overdraft and then went into credit on 7 September following the receipt of loan proceeds. However, by 11 September 2017 the account was back in its overdraft. I think this suggests that Mrs M wasn't able to manage her overdraft without taking on other borrowing and even then, she quickly returned to being reliant on the overdraft (as opposed to using it for emergency borrowing). Mrs M's overdraft increased over the following weeks and went over its limit in November and December 2017.

Mrs M received another inheritance payment on 11 December 2017. This put her account into credit, but it returned to an overdraft position on 14 December. Looking at the account statements I can see that a substantial amount of the money received was used to pay off another debt. Mrs M's account returned to credit later in December following her income receipt but again this only lasted a few days. Following this Mrs M became more dependent on her overdraft. There were periods when Mrs M's account was in credit, but her statements show that these were due to her taking out further loans. And her statements suggest that she was taking on new debt at least in part to repay other debt and the account soon returned into overdraft following the loan proceeds being received. From mid April 2018 to September 2018, Mrs M's account remained in its overdraft with her regular income only reducing the overdraft for a period after which it increased further.

Based on this, I think that by September 2018, Barclays ought to have realised that Mrs M was struggling and unlikely to be able to sustainably repay her overdraft without help. It was evident that Mrs M's overdraft had become unsustainable for her and that continuing to provide it was likely to cause significant adverse consequences. In these circumstances, Barclays should have stopped providing the overdraft on the same terms. It should have instead treated Mrs M with forbearance, even if this meant taking corrective action in relation to the facility.

As Barclays didn't react to Mrs M's overdraft and instead continued charging in the same way, I think it failed to act fairly and reasonably.

Putting things right

Barclays should:

- Re-work Mrs M's current overdraft balance so that, from the point that the £5,000 limit was implemented to one year of that date, any interest, fees and charges applied to overdraft balances in excess of £4,200 (the previous limit) are removed. Also, any interest, fees and charges applied then from that point in September 2018, to date, should be removed entirely.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Barclays should contact Mrs M to arrange a suitable repayment plan for this.

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 Mrs M, 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 Barclays should remove any related adverse information from Mrs M's credit file.*

*HM Revenue & Customs requires Barclays to take off tax from this interest. Barclays must give Mrs M a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that Barclays Bank UK PLC should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 12 March 2024.

Jane Archer
Ombudsman