

The complaint

Mrs G complains that Starling Bank Limited lent irresponsibly when it approved an overdraft facility of £500 when she applied for a bank account. Mrs G also complains that Starling Bank failed to provide reasonable support when she experienced financial difficulties and unfairly applied interest and charges to the overdraft balance.

What happened

Mrs G applied for a bank account with associated overdraft with Starling Bank in December 2018. Starling Bank says it looked at Mrs G's credit file and didn't pick up on any causes for concern. Starling Bank approved Mrs G's application and gave her an overdraft limit of £500.

Mrs G has explained that since opening the account, her balance has consistently been overdrawn. In June 2019 Mrs G stopped working due to ill health and from July 2019 onwards only benefit income was paid into the account.

In January 2020 Starling Bank messaged Mrs G to notify her the account balance had exceeded the arranged overdraft limit. In December 2021 another automated message was sent to Miss G, this time detailing the overdrawn position of her account in the previous three months. In July 2023 Starling Bank agreed an arrangement with Mrs G that meant interest was frozen and a payment plan to reduce the balance was set up.

Mrs G went on to complain that Starling Bank had lent irresponsibly when it approved her application in December 2018 and unfairly applied interest and charges to her account. Starling Bank issued a final response on 27 July 2023 but didn't agree it had made a mistake or treated Mrs G unfairly.

An investigator at this service looked at Mrs G's complaint and upheld it. Whilst they weren't persuaded Starling Bank had lent irresponsibly when it approved the overdraft facility of £500, they pointed out it was meant to be a temporary form of borrowing. The investigator noted Starling Bank hadn't carried out regular reviews as its terms and conditions said it would. The investigator thought that more regular reviews from Starling Bank would've identified Mrs G's vulnerable position at a much earlier stage. The investigator asked Starling Bank to refund all interest, fees and charges applied from January 2020 onwards to Mrs G's account. Starling Bank didn't agree and asked to appeal, so Mrs G's complaint has been passed to me to make a 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 relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Mrs G's complaint.

There isn't a specific set of checks that a lender is required to carry out, but the lender must undertake a reasonable assessment of creditworthiness and affordability. Affordability checks need to be proportionate taking into consideration factors such as – but not limited to – the size of the debt, the repayments, what the lender knew about the consumer, and the things the consumer told it about their circumstances.

Starling Bank has supplied evidence from the point of Mrs G's application that shows it looked at the information she provided and carried out a credit search. The credit search results didn't identify any issues that caused Starling Bank concern and showed Mrs G was in a position to afford an overdraft facility of £500. I think it's reasonable to note the overdraft limit was reasonably modest and Mrs G was working at the time. In my view, Starling Bank carried out reasonable and proportionate checks when it looked at Mrs G's account application and approved her overdraft. I haven't been persuaded that Starling Bank lent irresponsibly.

Our investigator has highlighted the account terms and conditions that say Starling Bank will complete regular overdraft reviews. The investigator also noted CONC 6.7.2R that says *A firm must monitor a customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties*. The investigator asked Starling Bank to supply the dates and information obtained when it reviewed Mrs G's overdraft use, but it responded to confirm no reviews had been undertaken. I think the investigator makes a reasonable point and that Mrs G could reasonably have been expected to have been of the view Starling Bank was monitoring her account for signs of financial hardship.

The investigator picked up the January 2020 automated message Starling Bank sent Mrs G as a point that it should've used to review her account use and whether support should be offered. I note from Mrs G's statements that her circumstances had changed in June 2019 when she stopped receiving regular pay into the account. From that point, Mrs G's income was made up of benefits only. Mrs G has explained her change in circumstances came about due to ill health. Looking at Mrs G's bank statements, the level of income into the account reduced significantly from that point. And I can see that when Starling Bank's overdraft charge was applied in January 2020, it took Mrs G over the agreed limit.

Given the way Mrs G had used the account since inception and the change in activity from June 2019, I think Starling Bank should've been on notice that she may have been struggling. And I agree with the investigator that January 2020 would've been an appropriate time for Starling Bank to step in and see whether it could offer comprehensive support to Mrs G.

I note that Starling Bank's response to the investigator highlighted text messages and attempts it made to contact Mrs G. But I think it's fair to say the contact it made was sporadic and wasn't followed up when Mrs G failed to engage. Given the account activity I've seen, I'd have expected to see targeted attempts to provide support to Mrs G that goes beyond the contact Starling Bank attempted.

Whilst I don't agree the initial decision to lend was wrong, I'm satisfied a fair level of support wasn't offered. So, for the reasons I've given above, I'm going to uphold Mrs G's complaint and direct Starling Bank to refund all interest, fees and charges applied to the overdraft from January 2020 onwards.

My final decision

My decision is that I uphold Mrs G's complaint and direct Starling Bank Limited to settle as follows:

- Re-work Mrs G's current overdraft balance so that all interest, fees and charges applied to it from 1 January 2020 onwards are refunded
- If an outstanding balance remains on the overdraft once these adjustments have been made Starling Bank should contact Mrs G to arrange a suitable repayment plan for this (if it hasn't done so already). If it considers it appropriate to record negative information on Mrs G's credit file, it should backdate this to January 2020
- 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 G, 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 Starling Bank should remove any adverse information from Mrs G's credit file. †

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 1 March 2024.

Marco Manente
Ombudsman