

The complaint

Miss Y complains that Bank of Scotland trading as Halifax acted irresponsibly in lending her an overdraft, and didn't support her when she experienced financial difficulties.

What happened

Miss Y had an existing current account with Halifax. She took out an overdraft in December 2018, with an initial limit of £200. In September 2019, Halifax increased the overdraft on Miss Y's account to £2,000.

In October 2020, Halifax was contacted about Miss Y's account by a debt management company, a company Miss Y had entered into a debt management plan with. Following this contact Halifax sent Miss Y a number of letters before, in 2021, closing her account, selling the account debt on to a third party and registering the account as being in default with credit reference agencies.

In 2023, Miss Y complained to Halifax about its decision to grant the overdraft, and its decision to increase it. She complained that those decisions had forced her into a debt management plan. To resolve things, Miss Y asked that Halifax write off the remaining account debt, and that it amend her credit file.

In its final response letter, Halifax said it thought it had acted reasonably in agreeing to lend, but that it shouldn't have agreed to renew the overdraft in December 2020. It said it hadn't applied any interest or charges after this date, so it didn't think there was anything to refund to Miss Y.

Miss Y wasn't happy with Halifax's response and referred her complaint to our service. One of our Investigators considered Miss Y's complaint and didn't uphold it. In summary, she said she thought Halifax had acted reasonably in granting the overdraft, and increasing its limit, and it had provided reasonable notice before closing and defaulting the account. She said Halifax had no record of any calls from Miss Y regarding any financial difficulties prior to receiving contact from the debt management company, and she couldn't see it had failed to provide her with support.

Miss Y disagreed with the Investigator's opinion, so the complaint comes 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.

I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that before Halifax offered the overdraft facility, and when it increased the credit limit, it needed to

complete reasonable and proportionate checks to satisfy itself that Miss Y would be able to repay the debt in a sustainable way, without borrowing further elsewhere. As this was an open-ended account, Halifax also needed to consider whether Miss Y would be able to repay the debt within a reasonable period.

Initial overdraft limit of £200

Prior to offering the overdraft facility in December 2018, Halifax told us that it asked Miss Y some questions about her income and expenditure, estimated her essential living costs (other than housing), and considered information it had gathered from credit reference agencies.

Miss Y had held a current account with Halifax for several years when it offered her the overdraft facility. It doesn't appear it was her main account, as it doesn't include transactions such as her salary or utility bills. In the three months' prior to December 2018, I can't see anything to indicate that Miss Y was experiencing financial stress.

Halifax recorded Miss Y's monthly income as £2,300, and her housing costs as £450. Halifax estimated Miss Y's essential living costs to be £300.

Halifax has told us it would have conducted credit checks, but it no longer holds records of the information it received from credit reference agencies about Miss Y at this time. Our Investigator asked Miss Y to provide a copy of her credit file, but Miss Y said she wasn't able to do so.

Halifax has been able to tell us that it calculated Miss Y's monthly payments towards her unsecured credit commitments to be £527, using internal data and information from credit reference agencies. It added a buffer of £63, and therefore concluded she had disposable monthly income of £473.

The initial credit limit for the overdraft - £200 – was relatively low, particularly given Miss Y's recorded income. Sustainable repayments of around 5% of the initial credit limit – allowing Miss Y to repay the interest charged and part of the capital if the account were utilised to its limit – would be around £10.

As I've said, Halifax calculated Miss Y's disposable monthly income to be £473, and sustainable monthly repayments towards the account would be around £10. So, on balance, I think Halifax conducted proportionate checks, and reasonably considered that the limit of £200 would be sustainably affordable for Miss Y.

Increase in overdraft limit to £2,000

Prior to offering to increase the overdraft limit to £2,000 in September 2019, Halifax told us that it asked Miss Y some questions about her income and expenditure, estimated her essential living costs (other than housing), and considered information it gathered from credit reference agencies.

Halifax recorded Miss Y's monthly income as £2,600, and her housing costs as £450. Halifax estimated Miss Y's essential living costs to be £478.

Halifax has been able to tell us that it calculated Miss Y's monthly payments towards her unsecured credit commitments to be £422, using internal data and information from credit reference agencies. It added a buffer of £56, and therefore concluded she had disposable monthly income of £1,194.

Halifax has been able to provide some of the results of its checks with credit reference agencies. It found that Miss Y had one default, from over five years prior. It isn't clear from the information Halifax has provided whether Miss Y's existing credit commitments were up to date. I do not think the historic default should have been cause for concern.

Looking at the statements for Miss Y's Halifax account for the three months prior to the limit increase, she'd used the overdraft facility for relatively short periods during that time. I also can't see any signs of financial stress, such as returned payments.

But this was a very significant increase in the credit limit of Miss Y's account. So, I do not think the checks Halifax conducted were proportionate. I think that Halifax should have conducted further checks to verify her income and expenditure, such as by asking Miss Y to provide it with statements from her main current account.

Our Investigator asked Miss Y for statements from her main current account from around this time, but unfortunately Miss Y said she couldn't provide them. So, I can't reconstruct what Halifax would likely have found had it had sight of these.

Overall, although I do not think Halifax conducted proportionate checks to satisfy itself the limit of £2,000 was sustainably affordable for Miss Y, I do not have enough information to reasonably conclude that it would not have reasonably considered that the account would be sustainably affordable had it done so.

As Halifax has accepted it shouldn't have renewed the overdraft in December 2020, I haven't considered this decision in detail.

Support during financial difficulties

Miss Y has told us that she thinks that Halifax failed to give her enough repayment options prior to passing the debt to collections, and that this caused her to enter a debt management plan. She asked our Investigator to listen to her phone calls with Halifax.

Halifax provided us with screen shots of its customer notes with Miss Y, which show no record of any calls with Miss Y about financial difficulties she might have been experiencing prior to it receiving contact from the debt management company. Our Investigator asked Miss Y for further information about these calls to help her consider this further, but she declined to provide any.

On balance, I do not have enough information to reasonably conclude that Halifax failed to offer Miss Y support when she says she was experiencing financial difficulties, prior to it receiving contact from the debt management company.

Halifax has provided debt collection notes which show the debt management company told it that Miss Y could offer to make monthly payments towards the debt of just under £12. Daily interest on the outstanding overdraft balance at that time was just over £2, meaning monthly interest charges were around £60.

Halifax told us that it thought it was clear Miss Y needed long term support, so it began the process to close the account. Looking at the statements for Miss Y's account, Halifax froze interest and charges to the account on receiving contact from the debt management company. I think these were reasonable steps for Halifax to take, to provide support to Miss Y and prevent the level of her debt increasing.

Halifax wrote to Miss Y in October 2020 giving her 65 days' notice of the closure of the account. It subsequently sent a formal demand in December 2020 and a further letter in January 2021 asking that she pay the balance in full. It said that if the balance remained

outstanding, it would close and default the account, and may pass the account to a debt collection agency; which it subsequently did.

I think these actions were reasonable, and in line with the relevant regulations, given the level of monthly payment Miss Y could afford. I wouldn't expect Halifax to suspend interest and charges indefinitely, without looking at defaulting the account.

For the sake of completeness, I would add that I've also considered whether Halifax acted unfairly or unreasonably in any other way, including whether the relationship between Miss Y and it might have been unfair under Section 140A of the Consumer Credit Act 1974.

However, for the reasons I've already given, I am unable to reasonably conclude Halifax lent irresponsibly to Miss Y, or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

For the reasons I've explained, I am not upholding this complaint. I therefore can't reasonably conclude that Halifax should write off the remaining balance, or amend Miss Y's credit file as she's requested.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss Y to accept or reject my decision before 19 September 2024.

Frances Young
Ombudsman