

The complaint

Miss H complained that Santander UK Plc (“Santander”) irresponsibly granted an overdraft, with the limit then increasing over time, that she couldn’t afford to repay.

What happened

In December 2022, Miss H was granted an overdraft of £200 on her current account. Just over two weeks later, the limit was increased to £1,000. In mid-January 2023, the overdraft limit increased further to £2,000, and then at the end of August 2023 it went up to £2,500 and then £3,000 on the same day.

Miss H thinks that Santander didn’t carry out the appropriate checks before granting the overdraft, and then increasing the limit, and that it shouldn’t have granted the overdraft. She told us she is only able to work part time, and is receiving state benefits, as she has to support two young children. Miss H said she is in financial difficulties, and it is affecting her mental health. She would like Santander to write off the overdraft and refund the charges.

She complained about this to Santander. But Santander said it wasn’t upholding her complaint. In its final response letter it said that it had carried out thorough checks, and there was no reason to believe the overdraft and monthly repayments would be unaffordable or cause existing debt to become unsustainable. It also said that, until the complaint, it hadn’t been aware of Miss H’s financial difficulties, and that it would contact her to set up an arrangement to gradually reduce the overdraft, with all fees, charges and interest suspended for up to 36 months.

Miss H then brought her complaint to this service. Our investigator looked into it, but didn’t think the complaint should be upheld. Miss H didn’t agree, and asked for this complaint to be reviewed by an ombudsman.

I issued my provisional decision in May 2024, in which I explained why I disagreed in part with our investigator’s conclusions. Both parties have responded, and both have accepted my conclusions.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided to uphold part of Miss H’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and

the consumer's circumstances. So I've considered whether Santander completed reasonable and proportionate checks to satisfy itself that Miss H would be able to manage the overdraft in a sustainable way.

I set out my reasoning in my provisional decision as follows:

"Santander sent in copies of Miss H's current account statements, along with computer records of Miss H's account, and information about its credit checks.

Santander said it completed a full credit check and an affordability check before agreeing the overdraft and the subsequent increases in the limit. Based on the information it sent in, there was no adverse information on Miss H's credit file, and of course it had access to her income and outgoings as it held her current account.

I've looked carefully at all of the information that Santander sent in. In relation to the initial granting of the overdraft, and the increases in December 2022 and January 2023, I think Santander carried out reasonable and proportionate checks, and it acted fairly in agreeing the overdraft limits. I say this because Miss H's account had previously been well managed, and as I noted above there was no adverse information on her credit record. It looks as though Miss H had two personal loans with Santander, and one with another lender, but I can see no missed payments on these or other regular outgoings. Miss H's income seems to have come from her employment, state benefits and child maintenance payments, with the greatest proportion from state benefits, but these were for a consistent amount each month. I can't see anything to suggest that, at that point, the overdraft wouldn't be affordable and sustainable for Miss H. So I'm not proposing to uphold this part of her complaint.

However, I'm not satisfied that Santander carried out reasonable and proportionate checks when it agreed to increase Miss H's overdraft limit to £3,000 on 30 August 2023. I say this for the following reasons.

I can see from Miss H's bank statements that, from the end of May 2023, the account was overdrawn virtually all the time – prior to that the account was regularly in credit. I accept that Miss H wasn't fully using the overdraft limit, but nonetheless this was a change in her borrowing pattern. I can also see that Miss H took out a further personal loan for £1,000 in July 2023, (so she had four personal loans at this point) and as Santander had access to Miss H's account I think it should have been aware of it. Miss H's income had not increased, so I think this increase in her borrowing, coming just before the overdraft increase application, ought reasonably to have prompted Santander to make further enquiries about Miss H's circumstances.

From all this, I think Santander would have found that Miss H had become overly reliant on credit at this point. Her borrowing had increased, and her essential outgoings had not gone down, so with no increase in her income, managing and repaying the increased overdraft was unlikely to be affordable or sustainable. So I don't think Santander acted fairly in further increasing Miss H's overdraft limit in August 2023 and therefore I am proposing to uphold this part of Miss H's complaint.

Finally, I can see that Miss H is now in financial difficulties. I would expect Santander to treat Miss H with forbearance and due consideration as it is required to do."

As both parties accepted my provisional decision, and no new evidence or information has been sent in, I have no reason to change my conclusions. Therefore I uphold Miss H's complaint in part – that is, in relation to the overdraft increase in August 2023.

Putting things right

I think it's fair and reasonable for Miss H to repay the overdraft because she has had the benefit of that money. But she has paid interest and charges on an increase in her overdraft that shouldn't have been provided to her. So Santander should:

- Re-work Miss H's current overdraft balance so that all interest, fees, and charges applied to it from 30 August 2023 on the overdraft balance exceeding £2,000 are removed.
- If an outstanding balance remains on the overdraft once these adjustments have been made, Santander should contact Miss H to arrange a suitable repayment plan. Once Miss H has cleared the outstanding balance, any adverse information recorded after 30 August 2023 in relation to the overdraft should be removed from her credit file.
- 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 refunded to Miss H, 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, Santander should remove any adverse information from Miss H's credit file.

*HM Revenue & Customs requires Santander to deduct tax from any award of interest. It must give Miss H a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons set out above, I have decided to uphold Miss H's complaint in part and to require Santander UK Plc to compensate Miss H as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 15 July 2024.

Jan Ferrari
Ombudsman