

The complaint

Miss S complains that Santander converted her student account to a graduation account a year early. Miss S also complains about Santander's decision to remove the overdraft and record a default on her credit file.

What happened

Miss S opened a student account with Santander in May 2019 that came with an interest free overdraft facility. The student account's terms and conditions explained that whilst Miss S was studying no interest would be applied. At the end of the period of study, Santander's terms said it would convert the student account to a graduate account.

The graduate account's terms and conditions explained that in the first year after graduation overdrafts up to £2,000 would continue to be charged at 0% interest. The terms added that in year two, no interest would be applied to overdraft balances under £1,000.

The terms of the student account said that whilst in study, the account holder was required to fund it with at least £500 per academic term. The graduate account's terms and conditions said that it had to be used as the primary account with salary payments being made to it.

On 31 August 2023 Miss S called Santander and spoke with an agent. The agent explained Miss S' account was in arrears and dormant due to the lack of funding. Miss S explained that she'd resat a year during her university course, meaning she had graduated a year later than expected. As a result, Miss S explained her account had been converted to a graduate account a year too early which meant interest shouldn't be applied to the overdraft balance. Miss S said she hadn't told Santander that she'd been studying for an additional year or updated her address after moving.

Miss S confirmed her main bank account was with a different business which is where she was paid. The agent explained Miss S' account had been made dormant because of the lack of funds being paid in. The agent advised Miss S that she should start funding the account and explained the risks of her account being closed and information being reported to the credit reference agencies. The agent said Miss S should make payments of at least £20 a month into the account to get it out of the dormant position and remove the risk of it being closed.

On 4 September 2023 Santander wrote to Miss S and explained it intended to remove her overdraft unless a payment of £20 was received within the next 10 days. On 15 September 2023, Santander applied overdraft interest of £29.94 to Miss S' account. On 19 September 2023, Santander wrote to confirm it had removed Miss S' overdraft facility. On 19 September 2023 Miss S paid in £30.

On 26 September 2023, Santander wrote to Miss S again and explained that as the overdraft had been removed she needed to get in contact to discuss clearing the outstanding balance.

No payment was received in October 2023 and Santander applied £15.87 of interest to Miss S' account. Miss S made payments of £15 from November 2023. In December 2023, Santander traced Miss S to her new address and wrote to her requesting contact to discuss her account. Santander wrote to Miss S on 13 January 2024 to say all account facilities had been removed and that she needed to repay £1,984.81 in the next 10 days. On 17 January 2024 Santander sent Miss S a default notice. The account was subsequently closed at default.

In February 2024 Miss S contacted Santander and raised a complaint. Miss S explained she'd extended her studies due to Covid and had provided a letter from her university to confirm. Santander was able to amend Miss S' account to reflect the correct amount of time she was a student but wouldn't reinstate the overdraft facility. The agent Miss S spoke with asked her to discuss the account with Santander's Financial Services team to potentially agree an arrangement. Miss S declined and said she remained of the view that the account had been converted to a graduate account too soon and wanted to raise a complaint.

Santander issued a final response on 13 February 2024 and apologised for a delay in amending her account status. But Santander didn't agree to reinstate the overdraft as Miss S wasn't operating it in line with the account terms. Santander paid Miss S £100 for the distress and inconvenience caused.

An investigator at this service looked at Miss S' complaint. In its file submission, Santander said it wanted to offer a refund of the interest applied to Miss S' account in September and October 2023. The investigator wasn't persuaded that Santander had acted unfairly by closing Miss S' account and recording a default on her credit file and felt it had made a fair offer to resolve her complaint. Miss S asked to appeal, so her 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.

Looking at the circumstances of Miss S' case, I think there are two issues at play. I understand Miss S extended her studies which meant the move to a graduate account was processed a year earlier as a result. The graduate account moved into year two on 15 July 2023 which meant interest would be applied on overdraft balances over £1,000 from that date. That meant interest was applied in September and October 2023. The other issue is that Santander picked up that the account wasn't being used in line with the terms and conditions due to the way it was being funded.

I've listened to the available calls between Miss S and Santander. I think the call Miss S had on 31 August 2023 is of particular importance. During this call, Miss S confirmed that the account had been moved to a graduate account too early because her course had run for four years, not three. Miss S confirmed she'd finished her course and had been working full time for a few months. Miss S also said she was using another bank account with a different provider as her main account and to receive her pay.

The agent explained that Miss S' account had been made dormant due to the lack of regular payments being received. I've looked at Miss S' account history and the last substantial credit I saw was for payments that totalled £514 on 15 April 2023. Payments or credits received after that date were generally under £100 and infrequent. Overall, I'm satisfied Santander had fairly classified Miss S' account as dormant based on the way it was being used.

During the call, the agent explained that the dormancy state of Miss S' account could impact her credit file and ultimately result in a default being recorded. They explained Miss S needed to start making a minimum payment of £20 a month into her account to stop this and avoid the overdraft being removed. Miss S confirmed she understood.

I can see a follow up letter was sent to Miss S by Santander on 4 September 2023 that said if she didn't make a payment of at least £20 in the next ten days, her overdraft would be removed. I'm satisfied Santander made it clear the account was considered dormant and that Miss S needed to make regular payments into the account. I'm also satisfied Santander confirmed how long Miss S had to do that when it wrote to her.

Ultimately, Miss S made a payment of £30 on 19 September 2023 but that was outside of the ten days Santander provided on 4 September 2023. Santander wrote to Miss S on 19 September 2023 to confirm the overdraft had been removed.

I can see Santander didn't have an up to date address on file for Miss S so it's possible she wasn't receiving its letters. But at the start of Miss S' call with Santander on 31 August 2023, the agent offered to update Miss S' address. Miss S said she would do that using her banking app instead after the call was done. But Miss S' address wasn't updated until 4 January 2024. So whilst I understand Santander wasn't writing to Miss S' address, I'm satisfied she was aware her details weren't up to date and how to amend them. I'm unable to say Santander is responsible for any correspondence Miss S may not have received.

I've considered whether the move to a graduate account in July 2022 was a mistake by Santander. But in her call on 31 August 2023 Miss S confirmed that she hadn't informed Santander about the change in end date for her course. And I think it's fair to note that even if Miss S' account had only been in year one of the graduate account phase, the terms still required her to use it as her main account to receive her pay.

I'm sorry to disappoint Miss S but I haven't been persuaded it was unfair or unreasonable for Santander to remove the overdraft from her account. I'm satisfied the call handler Miss S spoke with on 31 August 2023 confirmed the account was dormant and what she needed to pay each month to resolve that. And I'm satisfied the agent confirmed that the way Miss S' account was administered could impact her credit file.

Santander wrote to Miss S' up to date address in January 2023 to confirm the overdraft had been removed and to request payment. A default notice was issued on 17 January 2023 that explained Miss S needed to pay the overdraft balance to avoid default. I'm sorry to disappoint Miss S but I'm satisfied Santander fairly communicated the status of the account to her and haven't been persuaded its decision to move to default was unreasonable.

I agree that Santander did make a mistake in terms of the interest applied to Miss S' overdraft. Miss S explained that the account entered the graduate phase too early and asked for the terms to be backdated. But account wasn't amended until early 2024, by which time the overdraft had already been removed. With that said, the first time interest was applied to the overdraft was on 15 September 2023. By that point, Santander had already taken the decision to remove Miss S' overdraft due to dormancy. So I'm unable to draw a clear link between how interest has been applied to the overdraft and Santander's decision to remove it due to dormancy.

I'm very sorry to disappoint Miss S as I can understand that the impact of the issues she's raised will remain on her credit file. But I think Santander makes a reasonable point when it says the account wasn't being used in line with its terms. Even if Miss S' account had been converted to a graduate account in July 2023, instead of July 2022, she confirmed her salary was being paid into another account with a different provider. As noted above, I'm satisfied

that the agent Miss S spoke with on 31 August 2023 confirmed what she needed to do to avoid the overdraft being removed. And I can see that Santander wrote to the address it had on file on 4 September 2023 to confirm she needed to make a payment of £20 within ten days to avoid the overdraft being removed.

As I haven't been persuaded that Santander made a mistake in terms of its decision to remove the overdraft, I'm not telling it to reinstate it or amend Miss S' credit file. I can see Santander paid Miss S £100 for the distress and inconvenience caused and has agreed to refund the interest it applied in September and October 2023. In my view, that's a fair way to resolve Miss S' complaint. As I'm satisfied Santander has already agreed a settlement that is fair and reasonable in all the circumstances, I'm not telling it to do anything else.

My final decision

My decision is that Santander has already agreed a settlement that is fair and reasonable in all the circumstances.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 14 August 2024.

Marco Manente
Ombudsman