

The complaint

Mr H complains that HSBC UK Bank Plc trading as First Direct unfairly reported a missed payment on his credit file as a result of being in an unarranged overdraft.

What happened

Mr H has a bank account with First Direct. He was unhappy to discover a missed payment on his credit file. First Direct said that it related to an unarranged overdraft. Mr H says he wasn't aware that his account was overdrawn.

Mr H says that after paying £100 into his bank account in late March 2024 to make an online bet, his account showed he had available funds of £160. However, when his account updated, Mr H had gone into a £60 unarranged overdraft. Mr H says he was not aware of this so didn't make a payment to bring his account balance up to date.

Mr H can't understand why First Direct reported a missed payment as there was no fixed payment with an unarranged overdraft. Mr H says the negative information on his credit file is affecting his ability to secure credit. He wants First Direct to remove the missed payment entry.

First Direct didn't agree that it made a mistake. It said it told Mr H via text message on 25 March 2024, that he had entered an unarranged overdraft. First Direct said that Mr H accessed his account online several times, so he should have been aware that his account was overdrawn.

Our investigator didn't uphold Mr H's complaint. She thought it was unclear why Mr H understood he had £160 available according to his bank statement and pointed out that the balance had been £0 before he paid in £100. Our investigator thought Mr H would have been aware he had entered an unarranged overdraft.

Our investigator explained that the late payment/arrears marker reports when an account is over its agreed limit for more than 30 days. She also said that in relation to an overdraft, a '1' on a credit file refers to the balance exceeding the overdraft limit for two to three months.

Mr H disagrees with the investigation outcome. He says it's important to distinguish between a late payment and a missed payment. Although Mr H thinks that text messages can be a convenient form of contact, he values written communication such as a letter when it comes to important information.

Mr H says he's reviewed First Direct's terms and conditions but can't find explicit details regarding the consequence of late or missed payments.

He says he was in financial difficulties and had a gambling problem, so he could not afford to repay the money he owed to First Direct at the time.

Mr H says that if the entry is reported at all, it should be reported to the credit reference agencies (CRAs) as a late payment rather than a missed payment.

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.

Having carefully considered everything provided, I am not upholding Mr H's complaint. I will explain why below. Although I may not comment on each and every point that Mr H has raised, this doesn't mean I have not read and considered everything he's provided. It simply reflects the informal nature of this service.

Mr H doesn't have an arranged overdraft facility on his account but First Direct can still let customers borrow through an unarranged overdraft – as happened here. Although Mr H thought he had deposited enough money into his First Direct account to cover the transactions he authorised on 25 March 2024, he only deposited £100 that day. So, I don't find that First Direct made a mistake with the balance on his account, which then caused him to go into an unarranged overdraft. And I don't find that just because the transactions related to gambling, that First Direct should not have allowed Mr H to enter an unarranged overdraft.

Although Mr H says he was unaware of the overdraft, the evidence supplied by First Direct shows that it sent him a text message on the day he entered the unarranged overdraft. Mr H viewed his account on four separate occasions between the end of March 2024 and 13 May 2024, and First Direct also wrote to him about the overdraft on 20 May 2024. So, I think Mr H should've been aware he continued to have an unarranged overdraft on his account. Mr H had a responsibility to manage his account. I don't consider it reasonable to expect that he could have an unarranged overdraft for two months, without there being a negative impact on his credit file.

The terms of Mr H's account with First Direct said that where a customer enters an unarranged overdraft, they must get their account back in credit as soon as possible and always within 31 days. First Direct's website also has an overdraft section which says "if you are in your unarranged overdraft for greater than 30 days, this could have an impact on your credit file". First Direct's privacy notice, which forms part of the terms of its relationship with Mr H, says that it can share details about his account history and repayment history. The privacy notice specifically states that if a customer borrows and does not repay in full and on time, the CRAs will record the outstanding debt. So, I can't fairly find that First Direct didn't explain the consequences of remaining in an unarranged overdraft to Mr H.

I can understand why Mr H is unhappy about the negative entry, but it's an accurate reflection of the management of his account. I should say that when our investigator wrote to Mr H, she mistakenly said the status code '1' - in relation to an overdraft - refers to the overdraft balance being greater than the overdraft limit for two to three months. Having reviewed the information supplied by First Direct, lenders may use status code 1, when a customer's overdraft balance has been greater than their limit for one to two months. This is to show that a customer is outside the terms of their agreement with a lender. As I've said above, Mr H remained in an unarranged overdraft for more than the maximum of 31 days allowed under the terms of his agreement, so First Direct correctly reported a status of '1' to the CRAs.

Although Mr H thinks that if the entry is reported at all, it should be a late payment, rather than a missed payment, I am satisfied that First Direct correctly reported the unarranged overdraft to the CRAs. It is not then responsible for how the CRAs display the arrears or late payment on Mr H's credit report.

I am sorry to learn that Mr H was having financial difficulties but I don't have evidence to suggest that he let First Direct know about this at the time his account became overdrawn.

So, it doesn't change my decision that First Direct didn't act unfairly by reporting the status of his unarranged overdraft to the CRAs. It follows that I don't require First Direct to take any action in response to Mr H's complaint.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 20 February 2025.

Gemma Bowen
Ombudsman