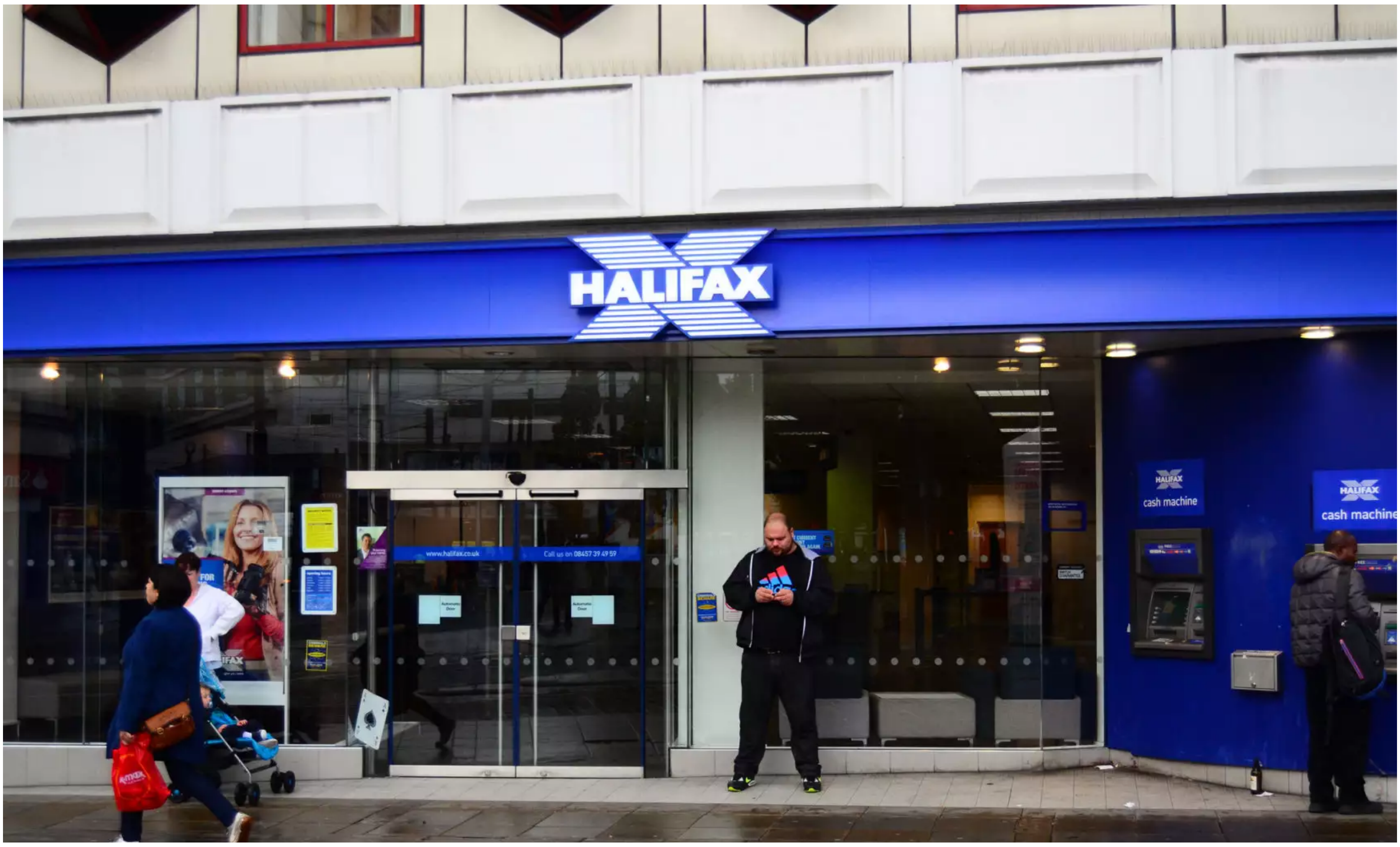
Money

How Halifax customers were "pressured" to pay off their overdrafts early



Customers of a major bank say they are being pressured to make overdraft payments they can't afford ahead of a major industry review.

Two customers with Halifax say they have been subject to high pressure tactics and threatened with a debt default, which would impact their future credit score, if they do not clear their overdrafts within the next few months.

Rule changes

Last month, the Financial Conduct Authority (FCA) announced it is considering a ban on fixed overdraft fees and a cap on unarranged overdraft prices. It is part of a wider crackdown on the cost of high-credit that is due to come in within the next year.

In November last year Lloyds Banking Group – which owns the Halifax – overhauled its overdraft fees in response to calls from the FCA, which raised particular concern over sky-high unarranged overdraft charges.

The bank scrapped unarranged fees and introduced a scaled model that saw all customers pay a daily fee of 1p for every £7 that they are overdrawn – which it said would benefit nine out of ten overdraft users.

Lloyds Group would not confirm how many customers are within the 10 per cent that are negatively affected, however **i** estimates it could be around 730,000 overdraft users.

them both permanently stuck in the red.

“My salary was only £1,500 a month so I was always in my overdraft, always paying fees; but the bank just let me keep increasing it. All I had to do was press my thumb down on a button on the app and ‘boom’ another £100,” Issac says.

On announcing its new fees in July, Lloyds promised to help regular overdraft users, claiming it would work closely with those negatively affected by the change to find lower cost, better long term solutions.

However, after contacting the bank for help in November both Isaac and Carly say they have been heavily pressured to pay off their overdrafts quickly, despite initial income assessments showing they have little to no monthly income spare.

Each has been subject to high pressure tactics that do not appear to comply with FCA guidelines, with the bank warning of credit defaults if they do not pay sums of between £170 and £450 per month to clear their overdrafts.

Pay or default

In January, Issac was informed that a default would be issued against him as he had closed his account and switched to Nationwide. However the call handler said she would personally remove it as ‘a goodwill gesture’ if he cleared his overdraft of more than £2,200 by 30 June.

In Carly’s case, she agreed a repayment term of £22 per month in November. However last month she was informed this payment plan is no longer available to her and that from August she will have to pay £170 per month to avoid a credit default.

This is despite no change in Carly’s financial circumstances, which are so stretched she is borrowing from another overdraft with Lloyds Bank – where her fees have also doubled – to meet her monthly expenditures. The Halifax was made aware of this in its original assessment in November.

Chartered financial analyst Gary Reynolds believes Halifax is not following a number of guidelines in its treatment of these customers. The rules state a firm must not pressure a customer to repay a debt in a period of time it knows would cause financial difficulty.

“Based on these circumstances, in both cases, I would say Halifax is in breach of the rules. Unless difficulties."

The regulator also confirmed that credit defaults cannot be applied then removed in the way described to Issac: "lenders do not have discretion to report or remove 'defaults' reported to credit reference agencies at will," it said.

Spike in ombudsman cases

The Financial Ombudsman Service (FOS) also wouldn't comment on individual cases.

However, it revealed that the number of complaints about overdrafts at the Bank of Scotland (which includes Halifax) rose 75 per cent between 1 November and 31 March 2018 – the period after the fee change – compared with the same period last year.

Overall numbers are small, at just 264 complaints. However those that reach the FOS must first have first been resolved by the bank, meaning these are likely to be more serious.

Neither Issac nor Carly have approached the FOS.

Simpler and fairer

Commenting on the cases, a Lloyds Group spokesperson said that where mistakes had been made, the bank would work to rectify them. However, the spokesperson insisted that the new fee model is "simpler and fairer."

"By charging 1p for every £7 of overdraft usage, our approach is simple and clear. More than nine in ten borrowers are either better off or unaffected financially by the changes. We would encourage customers with concerns about their finances to contact us about how we can help," said a Lloyds Group spokesperson.

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