

Overdraft repeat use

Chapter 5D

Overdraft repeat use

5D.2 Obligation to identify and monitor repeat use of overdrafts

- 5D.2.1** **R** A *firm* must establish, implement and maintain clear and effective policies, procedures and systems to:
- (1) monitor and review periodically the pattern of drawings and repayments of each of its *customers* under an arranged overdraft or an unarranged overdraft, and other relevant information held by the *firm*; and
 - (2) identify, by reference to an appropriate collection of factors, any *customers* in respect of whom there is a pattern of repeat use, and then sub-divide those *customers* into the following two categories:
 - (a) *customers* in respect of whom there are signs of actual or potential financial difficulties;
 - (b) all other *customers* who show a pattern of repeat use (that is, all *customers* within ■ CONC 5D.2.1R(2) who are not in category (a)).
- 5D.2.2** **R** The rules in ■ CONC 5D.2.1R(1) and (2) do not apply where the *firm* is already in the process of intervening in respect of the *customer's* overdraft use in accordance with ■ CONC 5D.3.
- 5D.2.3** **G**
- (1) The policies, procedures and systems referred to in ■ CONC 5D.2.1R should, having regard to the nature, scale and complexity of the *firms' consumer credit lending* activity in relation to overdrafts, enable the *firm*, at regular intervals, to pro-actively look back over an appropriate period at patterns of overdraft use.
 - (2) A *firm* may decide the frequency with which it reviews previous overdraft use, and the length of the preceding period of overdraft use that it considers when doing so, provided that the *firm* can demonstrate that its policies, procedures and systems are effective in promptly identifying *customers* who are within ■ CONC 5D.2.1R(2)(a) or (b).
 - (3) ■ CONC 5D.2.1R does not specify the frequency, duration or amount of drawings that may constitute repeat use. *Firms* have discretion, therefore, to tailor the policies, procedures and systems required by ■ CONC 5D.2.1R to their specific business circumstances. If a *customer* has become or remained overdrawn in every *month* over the preceding 12-*month* period, it is likely that the *customer* will be within ■ CONC 5D.2.1R(2)(a) or (b). It is also likely, however, that there will be other patterns of drawings in fewer numbers of *months* that

are caught by ■ CONC 5D.2.1R(2)(a) or (b). There need not necessarily be drawings under an overdraft in consecutive *months* in order for use to be properly treated as repeat use. Conversely, there may be small and temporary drawings, even in consecutive *months*, that are neither indicative of actual or potential financial difficulties nor the cause of high cumulative charges.

- (4) When determining whether there is a high cumulative charge for overdraft use which may be harmful, the *firm* should consider the total amount of the combined charges both in absolute terms and relative to the *customer's* financial circumstances, where known.
- (5) Where there is a pattern of repeat use of an overdraft associated with a personal current account, features of that use and other factors which may be a sign of actual or potential financial difficulties include:
 - (a) one or more of the matters set out in ■ CONC 1.3.1G(1) to (7) of which the *firm* is aware or ought reasonably to be aware from information in its possession;
 - (b) an upward trend in a *customer's* use of the overdraft over time, having regard to one or both of the following:
 - (i) the number of *days* of use per *month*; and
 - (ii) the value of the *customer's* borrowing.
 - (c) changes to the regular credits or debits to the personal current account, which may indicate a fall in disposable income or increased expenditure;
 - (d) use of other products which may indicate a fall in disposable income or growing indebtedness (for example, a reduction in the balance of a savings account, or an increase in the outstanding balance on another *credit* product) of which the *firm* is aware or ought reasonably to be aware from information in its possession;
 - (e) the use of an unarranged overdraft associated with the personal current account, especially if becoming larger, more sustained or more frequent over time;
 - (f) the incidence of refused payments in relation to the personal current account, especially if there is a rise in the number or frequency of refused payments over time;
 - (g) information provided by the *customer* that indicates the *customer* is in, or is likely to experience, financial difficulties.
- (6) A *customer* may in fact be in actual or potential financial difficulties even if none of the factors described above is present, so the *customer's* response to the *firm's* initial intervention will be important for determining the appropriate next steps.
- (7) When a *firm* is first implementing policies, procedures and systems to identify *customers* in respect of whom there is a pattern of repeat use, the *firm* should give priority to identifying those *customers* who are vulnerable and experiencing, or at risk of, financial difficulties, in circumstances where prioritisation is appropriate in the light of the scale and complexity of the *firm's* consumer credit lending activity in relation to overdrafts.