

Overdraft repeat use

Chapter 5D

Overdraft repeat use

5D.3 Interventions to be taken in the case of repeat users

5D.3.1

R

- (1) This *rule* applies where a *firm*:
 - (a) identifies that a *customer* has a pattern of repeat use within the meaning of ■ CONC 5D.2.1R(2)(b);
 - (b) assesses that the *customer* is likely to continue that pattern of use; and
 - (c) does not consider, acting reasonably, that the *customer* is one in respect of whom there are signs of actual or potential financial difficulties.
- (2) The *firm* must communicate with the *customer* ("the first communication") in an appropriate medium (taking into account any preferences expressed by the *customer* about the medium of communication between the *firm* and the *customer*) highlighting the *customer's* pattern of overdraft use and indicating that the *customer* should consider whether it is resulting or may result in high avoidable costs.
- (3) The *firm* must continue to monitor and review the *customer's* pattern of overdraft use after the first communication, and if after a reasonable period the pattern of use continues to be within ■ CONC 5D.2.1R(2)(b), the *firm* must further communicate with the *customer* ("the second communication"), reminding the *customer* of the content of the first communication or reiterating that content.
- (4) The *firm* must continue to monitor and review the *customer's* pattern of overdraft use after the second communication, and if the pattern of use continues to be within ■ CONC 5D.2.1R(2)(b), the *firm* must continue to communicate with the *customer* in similar terms or for a similar purpose at least annually until such time as the pattern of use ceases to be within ■ CONC 5D.2.1R(2)(b).

5D.3.2

R

- (1) This *rule* applies where a *firm* identifies that a *customer*:
 - (a) has a pattern of repeat use within the meaning of ■ CONC 5D.2.1R(2)(a); and
 - (b) is one in respect of whom there are signs of actual or potential financial difficulties.
- (2) The *firm* must communicate with the *customer* in an appropriate medium (taking into account any preferences expressed by the *customer* about the medium of communication between the *firm* and

the *customer*) highlighting the *customer's* pattern of overdraft use and indicating that the *customer* should consider whether it is resulting or may result in high avoidable costs. The *firm* must encourage the *customer* to contact the *firm* to discuss their situation and explain that doing nothing could make things worse. The *firm* must also provide contact details for *not-for-profit debt advice bodies*.

- (3) If after a reasonable period the *customer* has not contacted the *firm* and the *customer's* pattern of use continues to be within ■ CONC 5D.3.2R(1), the *firm* must take reasonable steps to contact the *customer* to discuss their situation.
- (4) In discussions under (2) or (3) (which need not be on a single occasion), the *firm* must seek to explore the reasons for the *customer's* pattern of overdraft use, as well as the reasons for the *customer's* actual or potential financial difficulties, and what (if anything) the *customer* is doing, or intends to do, to address those issues.
- (5) If appropriate, in the light of the information gathered under (4), the *firm* must:
 - (a) identify and set out suitable options designed to help the *customer*:
 - (i) to reduce their overdraft use over a reasonable period of time; and
 - (ii) to address their actual or potential financial difficulties, in such a way that does not adversely affect the *customer's* financial situation; and
 - (b) explain that, if the *customer* fails to engage in the discussion or fails to take appropriate action to address the situation, one of the possible consequences is that the *firm* may need to consider the suspension or removal of the overdraft facility or a reduction in the credit limit.
- (6) If the *customer* declines to contact the *firm* in response to the communication in (2) and to respond to attempts by the *firm* to contact them under (3), or to take reasonable steps to take forward an appropriate option under (5) or to otherwise address the situation, the *firm* must after a reasonable period consider whether to continue to offer the overdraft facility and whether to reduce the credit limit.
- (7) Sub-paragraph (6) does not apply if the suspension or removal of the overdraft facility or a reduction in the credit limit would cause financial hardship to the *customer*.

5D.3.3

G

- (1) The purpose of ■ CONC 5D.3 is to require a *firm* to intervene in an appropriate and proportionate manner where it detects repeat use of an overdraft with the aim of reducing that use and improving the *customer's* financial situation. A *firm* should keep in mind, when doing so, the principle that an overdraft is not generally suitable for long-term use that results in a high total cost burden, as well as the need to pay due regard to the interests of its *customers* and treat them fairly in accordance with *Principle 6*.

- (2) ■ CONC 5D.3 does not specify a particular form of words to be used in communications with repeat overdraft users, and *firms* have discretion to tailor the language and tone of those communications to the circumstances of the individual *customer*.
- (3) For the purposes of ■ CONC 5D.3.2R(3), “reasonable period” is unlikely to be longer than one *month*.
- (4) Options that a *firm* could identify for the purposes of ■ CONC 5D.3.2R(5)(a) may include, where assessed as appropriate for the *customer*:
 - (a) advice on budgeting and money management, for example adjusting payment dates or setting up alerts;
 - (b) providing contact details for *not-for-profit debt advice bodies* and other relevant bodies (for example, one providing advice on budgeting or money management), and encouraging the *customer* to contact one of them;
 - (c) the provision by the *firm* to the *customer* of alternative *credit* on more favourable terms (for example a fixed-sum loan repayable by instalments), provided that, if this would be accompanied by suspension or removal of an existing *credit* facility, this would not cause financial hardship to the *customer*;
 - (d) forbearance, such as reducing or waiving interest and other charges or (where applicable) allowing additional time to pay, where this does not unduly delay further help to the *customer* or permit further deterioration of the *customer’s* financial position; or
 - (e) a reduction in the credit limit or the suspension or removal of the overdraft facility (or reminding the *customer* that they can ask the *firm* to take these steps) provided that such reduction, suspension or removal would not cause financial hardship to the *customer*.
- (5)
 - (a) If an overdraft *customer* has already been identified by a *firm* as being in financial difficulties, and is already being treated with appropriate forbearance by the *firm*, the *rules* in this section do not require the *firm* to do anything which is inconsistent with the treatment that it has already adopted in respect of that *customer*.
 - (b) Where a *Debt Respite moratorium* is in effect for a *customer’s* overdraft and a *firm* is complying with its obligations pursuant to that moratorium, the *firm* is treating the *customer* with appropriate forbearance with respect to the portion of the overdraft that is subject to the moratorium. The *firm* is not required to take the steps in relation to that *moratorium debt* under this section during the moratorium, as these steps would be inconsistent with the treatment currently being adopted in respect of that *customer*.
- (6) *Firms* are reminded that they should not consider the suspension or removal of the overdraft facility, or a reduction in the credit limit, under ■ CONC 5D.3.2R(6) if this would cause financial hardship to a *customer* (■ CONC 5D.3.2R(7)). A *firm* should give careful thought to the potential effect of suspension, removal or reduction on the

customer and consider these steps as part of a response to repeat use only where the *firm* is confident, on the basis of sufficient information and enquiry, that they would not cause financial hardship in the individual circumstances of the case.