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Chapter 5C: Overdraft Pricing - Summary

# Overview

This chapter establishes regulatory requirements for overdraft pricing structures in the UK, mandating that firms implement simple, transparent, and easily comparable charging structures. The regulations specifically prohibit firms from charging higher interest rates for unarranged overdrafts than for arranged overdrafts, aiming to protect consumers from excessive overdraft charges.

# Key Points and Main Findings

## Scope and Application

* Applies to: Firms providing consumer credit lending through arranged and unarranged overdrafts on personal current accounts
* Excludes:  
    
  Firms offering only excluded accounts (accounts without overdraft facilities)  
  Multi-currency accounts  
  Private banks (serving high-net-worth individuals with assets >£250,000)  
  Credit unions
* Firms offering only excluded accounts (accounts without overdraft facilities)
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* Geographic scope: Activities from UK establishments only
* Firms offering only excluded accounts (accounts without overdraft facilities)
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## Core Requirements for Overdraft Charges (Section 5C.2)

* Single charging method: All overdraft charges must be expressed as annual percentage interest rates
* Uniform rates: Single interest rate must apply to entire overdraft balance (no tiered/graduated structures)
* No facility fees: Cannot charge fees for making overdrafts available (unless limit exceeds £10,000)
* Consistency: Same calculation method for both arranged and unarranged overdrafts
* Buffer zones: Permitted to offer fee-free amounts, but conditions must be clear and unconditional

## Interest Rate Cap for Unarranged Overdrafts (Section 5C.3)

* Primary rule: Unarranged overdraft rates cannot exceed arranged overdraft rates for the same customer
* Comparison requirement: If customer has no arranged overdraft, firm must compare to most similar account type
* Enforcement: Charges violating this rule are unenforceable and recoverable by customers
* Flexibility: Firms may charge less or nothing for unarranged overdrafts

## Customer Protection Measures (Section 5C.4)

* Change management: Firms must consider impact on existing customers when restructuring charges
* Vulnerable customers: Special consideration required for customers with large overdraft balances
* Forbearance: Appropriate assistance must be provided to affected customers

# Important Details and Conclusions

## Implementation Considerations

* Rules apply to charges accruing after the effective date, regardless of when agreements were made
* Firms retain ability to vary rates through valid contractual provisions
* Waiving or reducing charges for forbearance purposes remains permitted
* Different rates may apply to different customers or accounts

## Regulatory Intent

The regulations aim to:  
1. Simplify overdraft pricing for better consumer understanding  
2. Enable easy comparison between providers  
3. Protect consumers from punitive unarranged overdraft charges  
4. Ensure fair treatment during transitions to new pricing structures

## Compliance Notes

* Representative APR requirements apply to financial promotions
* "Impose" includes creating, relying on, or enforcing contractual rights to charges
* Firms must maintain documentation showing compliance with comparable account identification requirements