Summary of ch\_05D.pdf

Chapter 5D: Overdraft Repeat Use - Summary

# Overview

This chapter establishes requirements for firms to monitor and address patterns of repeat overdraft use that may result in high cumulative charges harmful to customers or indicate financial difficulties. The regulations apply to arranged and unarranged overdrafts associated with personal current accounts, requiring firms to identify repeat users, categorize them based on financial difficulty indicators, and implement appropriate interventions.

# Key Points and Main Findings

## Definitions and Scope

* Repeat use defined as patterns of overdraft usage where frequency and depth may cause harmful high cumulative charges or indicate financial difficulties
* Applies to consumer credit lending for arranged and unarranged overdrafts on personal current accounts
* Excludes: excluded accounts, foreign currency accounts, private banks, and credit unions
* Applies to UK-established firms

## Monitoring Requirements (Section 5D.2)

* Firms must establish policies, procedures, and systems to:  
    
  Monitor patterns of drawings and repayments periodically  
  Identify repeat users early using relevant information  
  Categorize repeat users into two groups:  
    
  Those showing signs of actual/potential financial difficulties  
  Other repeat users without financial difficulty indicators
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## Intervention Requirements (Section 5D.3)

* For repeat users without financial difficulties:  
    
  First communication highlighting pattern and potential high costs  
  Second communication if pattern continues after reasonable period  
  Annual communications thereafter until pattern ceases
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* For repeat users with financial difficulties:  
    
  Prompt communication encouraging customer contact  
  Active outreach if customer doesn't respond within reasonable period (likely ≤1 month)  
  Exploration of reasons for overdraft use and financial difficulties  
  Identification of suitable support options  
  Consideration of facility suspension/removal if customer doesn't engage (unless causing hardship)
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## Support Options

* Budgeting advice and money management
* Forbearance measures (reduced charges, additional time to pay)
* Refinancing to more favorable terms
* Staged reductions in credit limits
* Repayment plans

## Monitoring and Reporting (Sections 5D.4-5D.5)

* Firms must monitor effectiveness of policies and update as needed
* Submit detailed policy descriptions to FCA
* Provide two six-month reports on repeat user numbers and overdraft balances
* Report substantial policy changes to FCA

# Important Details and Conclusions

## Key Principles

* Overdrafts are not suitable for long-term use resulting in high cost burdens
* Firms must treat customers fairly (Principle 6) and communicate clearly (Principles 7 and 12)
* Any forbearance measures must be sustainable - not preventing payment of priority debts or essential living expenses
* Income and expenditure assessments must be objective and sufficiently detailed

## Financial Difficulty Indicators

* Upward trends in overdraft use (days per month, borrowing value)
* Changes in regular account credits/debits suggesting reduced income
* Increased use of unarranged overdrafts
* Rising refused payments
* Customer-provided information about difficulties

## Implementation Priorities

* When first implementing systems, firms should prioritize identifying vulnerable customers experiencing or at risk of financial difficulties
* Firms have discretion to tailor policies to their specific business circumstances
* Clear written policies required for income/expenditure assessment procedures

## Regulatory Compliance

* All documentation and reports must be submitted to overdrafts@fca.org.uk
* Firms already providing appropriate forbearance are not required to take inconsistent actions
* Special provisions for customers under Debt Respite moratoriums