

Bank charges

Bank charges can push a manageable debt situation into an unmanageable one, making juggling finances impossible. Charges are imposed when an account is overdrawn, or a cheque, direct debit or standing order "bounces" due to lack of money in an account. They can also be imposed in respect of late or missed credit card payments.

Hefty bank charges imposed on CAB debt clients create further debt, and a spiraling cycle that results in charges on charges

- In 2005, almost one in five consumers were faced with some kind of charge on a financial product¹
- Nearly one in twenty were hit by more than £100 of penalties and charges
- Penalty charges have risen by a third in the last three years²
- Charges of between £20 and £25 are imposed if a cardholder fails to pay a credit card bill on the due date, or exceeds the credit limit

Average costs for:

- A bounced cheque are £32.22
- A failed direct debit are £31.33
- A failed standing order are £31.07

In July 2005, the OFT concluded that the levels of default charges on credit cards by eight major companies were excessive.

Since then, the OFT has declared that the current level of late payment charges amount to an unfair penalty on customers, under the new Consumer Credit Act.

Problems faced by CAB clients

- Charges on failed direct debits pushing clients into debt, as charges rack up
- Serial charges as escalating overdrafts cannot be repaid, resulting in repeat monthly charges for late payment, over limit fees and interest
- Banks ensuring their own loan payments are paid, resulting in an overdraft and further charges

¹ BBC News 13 January 2006

² Scotsman 13 December 2005

³ Guardian and Herald 6 April 2006

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Bank charges and their impact

Case evidence highlights a number of specific issues relating to bank arrestments:

Research carried out by Citizens Advice Scotland in 2003 found that clients usually got into unmanageable debt through changes of circumstances such as job loss, illness, low income or disability but also as a result of chronic poverty. Overdrafts and missed payments can happen when people on low incomes try to juggle multiple debts - but their impact is disproportionate. Hefty charges can increase their debt so much it becomes unrepayable.

CAB offices throughout Scotland have reported the following:

- A client's late Disability Living Allowance payment resulting in imposition of charges for an overdrawn account
- A client whose insurance company took a direct debit a day early resulting in a £30 bank charge every time it happened
- A client whose £600 overdraft was being repaid at £20 a month, but £7 of that applied to interest and charges
- A client whose sole income was benefits but suffered a £35 charge for a failed direct debit of £10

The situation can be compounded when a client has a loan with the bank. The bank has the right of set off, which allows it to take money owing to it on the loan from a client's account – and then also impose charges if this leaves insufficient funds in the account.

- A client had a loan from a bank which was being repaid monthly by direct debit. The client had insufficient funds but the bank refused to cancel the direct debit, and thereafter imposed charges for unpaid direct debit and over limit charges
- A client whose bank took £60 from her current account to pay off credit card payments, leaving her overdrawn and owing bank charges

CAS calls for change

To try and address some of these issues CAS would like:

- charges to be proportionate to the debt, not unfairly imposed and not used when they will worsen an already difficult debt situation
- charges not to be imposed when the debt triggering them was created by the bank using its right of set off
- greater discretion in applying charges, taking into account a debtor's financial situation such as other debts or benefit-only income

An East of Scotland CAB reports of a client who was overdrawn by £20 – the bank told him they would impose charges each day the account was £10 over the limit, as well as imposing a higher interest rate. Additionally they would charge £30 for each item of £10 or more when there are insufficient funds to pay direct debits, standing orders or cheques.

Case evidence

A West of Scotland CAB reports of a client who exceeded his credit card limit of £200 by £2 – resulting in late charges, over limit fees and interest which increased his debt from £202 to £604.22.

A West of Scotland CAB reports of a client who incurred charges of £407 – nine were charged at £39 plus a further two at £28 each, all due to a lack of funds during a two month period to pay his direct debits. Some charges were imposed due to two attempts to collect a direct debit, and some direct debits couldn't be made as a result of reduced funds due to the charges.

A North of Scotland CAB reports of a lone parent client with a credit card bill of £1000. The card had not been used for three years, and the bill was the result of interest and late payment charges – the client had been paying £30 per month but this was insufficient to repay these charges.