

# Fully charged

The recession has left Scots more exposed than ever to being overdrawn on their bank account and experiencing high charges imposed by their banks. Citizens Advice Scotland's latest report, Fully Charged, looks at the sharp end of overdraft charges, showing that charges are not always caused by budget mismanagement on behalf of the client, that the most vulnerable clients are hit much harder by bank charges than those who are better off, and that banks are failing to help those struggling with their finances.

The report outlines the main problems of overdraft charges for our clients:

- Charges occur for many reasons other than money mismanagement, such as low income, job loss, mistakes by banks, or problems with benefit payments
- Charges discriminate against low income clients, as the level of charge is insensitive to their levels of income
- Banks are failing to help those in financial difficulty by refusing to freeze charges, asking for unreasonable rates of repayment, and trying to sell other products. Many of these actions can increase financial problems for clients.

## Why clients incur charges

Despite the popular myth, a great number of those facing overdraft charges do so for reasons other than budget mismanagement, such as:

- Low income – Clients with low incomes have a very small margin for error in their budget, and can go overdrawn through an unexpected bill
- Job loss – Many clients who have lost their job in the recession are quickly building up overdraft charges, as their reduction in income brings them closer to overdraft limits
- Actions by banks – Mistakes by banks and use of the 'right of set off' mean that the actions of banks can be the cause of charges
- Problems with benefits – Benefit payments that are stopped/delayed, often through no fault of the client, can push clients into being overdrawn.

Vulnerable Scots are more exposed than ever to disproportionate and unfair overdraft charges from their banks.



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## Why charges are disproportionate

Overdraft charges inherently discriminate against low income clients, where the level of charge is insensitive to the level of infringement. Many of the clients affected are already in financial difficulty, and receive disproportionate charges for even very small overdrafts:

- A client with mental health problems built up charges of £180 in two months for an overdraft of just £2
- A client received £66 of charges for an overdraft of only 60p
- A 77 year old client received over £300 of charges in a month from one bounced transaction.

Although charges are the same for all clients, their impact on a client's finances can vary substantially, depending on the client's circumstances. A client who has been made redundant in the recession and receives Job Seekers Allowance (JSA) can expect an impact on their monthly income that is six times greater than if they were in full-time employment on the average wage. Clients who are made redundant are also more likely to incur charges as their income drops:

- A client incurred £400 of charges in a six week period after being made redundant
- Another client's JSA payments are being completely 'swallowed up' by overdraft charges, leaving the client relying on his parents for support.

## Banks fail to help clients in financial difficulty

Overdraft charges are made worse by unhelpful attitudes and actions from banks toward clients who ask for help and try to take responsibility for their financial situation. Bureaux report:

- Banks ask for unrealistic rates of repayment from clients, and are unresponsive to other offers
- Banks put pressure on clients to take out loans while they are struggling to repay their overdrafts. While this may clear the overdraft in the short term, it can leave clients with an unaffordable debt to repay.

## Potential remedies

To address these issues, CAS calls for the UK Government and the UK banks to look at remedies that will allow:

- Charges to be proportionate to the debt, not unfairly imposed and frozen 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 very low income.

**|| A North of Scotland CAB reports of a client who has incurred multiple overdraft charges since being made redundant. The client recently exceeded his authorised overdraft limit and received more than £400 in charges in a six week period. The client is extremely stressed and worried about his debts and cannot see how to stop them increasing.**

## Case evidence

**|| A North of Scotland CAB reports of a lone parent whose bank are insisting that she increases repayments on her overdraft to over four times the level she is currently paying. The client has an agreement to pay £66 per month, but now her bank is insisting the overdraft must be cleared in six months. This would entail payments of over £300 per month, which the client simply cannot afford.**

**|| A West of Scotland CAB reports of a single mother whose entire income was swallowed up by bank charges. The client has three children and receives £200 in benefit payments, but in one month this entire amount was taken by the bank to go towards her pre-existing overdraft charges. The client tried to negotiate with the bank, making clear that she is willing to put some of the money towards the charges as long as she is allowed to keep some to live on, but the bank refused to negotiate with her.**