

Overdrafts

7 August 2017

An overdraft gives a customer access to more money than is actually in his or her account. An overdraft facility can be arranged or unarranged.

Arranged overdraft

This is an amount a bank agrees to advance after the customer has used up his or her funds in a particular account. A bank may, for example, to advance \$500 after a customer's balance has reached zero.

Unarranged overdraft

Here, a customer withdraws money either beyond the available balance or beyond an agreed limit without the agreement of the bank. In the first situation, the customer simply spends money that is not there; in the second, he or she has an arranged overdraft and then spends beyond that limit – and hence goes into an unarranged overdraft. In either case, it is at the bank's discretion whether to accept the overspending. The main consideration is the customer's credit history. Customers with a good credit history are more likely to be permitted to exceed the limit on their account than those with a poor credit history.

Banks may allow customers to go into unarranged overdraft. This is usually set out in the terms and conditions of the account. Again, it will be at a bank's discretion whether to allow the overspending. The terms and conditions will say something along the following lines: "If you try to make a payment out of your account for which you do not have available funds, we will treat this as a request for an unarranged overdraft. We will consider whether we agree to your request, taking into account your personal circumstances. We will not be liable to you if we do not agree to give you an unarranged overdraft."

Charges for unarranged overdrafts

Banks can charge a fee and interest on overdrawn amounts, but this must be specified in the account's terms and conditions. An example is the following: "When your account goes into unarranged overdraft or you exceed your arranged overdraft limit, you will be charged interest at our unarranged overdraft interest rate and an unarranged overdraft fee."

How to contact us

How to avoid going into overdraft

Keep a close eye on your account so you know what your balance is before you spend money. Customers are responsible for ensuring they have enough money in relevant accounts to cover payments. Mobile banking allows you to check your available funds wherever you are, including, for example, in a shop before making a purchase.

Ask your bank whether it can load a “no overdraft” alert on your account. Make sure you understand how such alerts work. Some alerts prevent transactions altogether if an account has insufficient funds. Other alerts may not stop some electronic transactions (such as automatic payments), which can result in fees.

Alternatively, ask your bank if it can send a text warning when your account balance is low. But remember, even with these precautions in place, it remains your responsibility to be aware of your account balance.

Case 1: Bank had no responsibility for overspending

Mr G withdrew funds from his savings account while travelling overseas for several months. On his return, he discovered the account was \$1,000 overdrawn because his bank had honoured withdrawals even though he had insufficient funds.

Mr G did not have an arranged overdraft on the account and said he should not have to repay the debt, which included fees and interest on the overdrawn amount.

The bank offered Mr G two options. It could deduct all interest and fees charged to date, provided he began making regular repayments, but it would continue to charge fees and interest on the remaining balance until the debt was repaid. Alternatively, it could deduct all interest and fees and reduce the remaining balance by a small percentage if Mr G immediately repaid the debt in full.

Mr G was unhappy with either option and complained to us. He said the bank should accept some responsibility for the situation because he believed he had been spending his own money. We explained the bank was entitled to seek repayment of the money spent because he had received the benefit of those funds. Furthermore, the terms and conditions of the account enabled the bank to honour transactions even if the account had insufficient funds.

We considered the bank’s options to be reasonable. Mr G accepted the second option.

Case 2: Bank able to charge unarranged overdraft fee

Mr B complained that his bank charged him an unarranged overdraft fee each time he overdrawn his account. This happened four times in five months. The bank refunded two of the four fees as a goodwill gesture because Mr B was struggling financially.

Mr B complained that it was not reasonable for his bank to charge him these fees, and he questioned its legal right to do so.

We explained that the terms and conditions of his account stated that the bank could charge an unarranged overdraft fee if a customer overdrawn his or her account without an approved overdraft.

How to contact us

Mr B had no such overdraft. The fees charged were in accordance with the bank's standard schedule of charges, and we were not able to question whether these charges were reasonable.

Mr B did not agree with our view. We reviewed the case and confirmed that we could not consider it further.

How to contact us

Freephone 0800 805 950 Email help@bankomb.org.nz
Web www.bankomb.org.nz Facebook www.facebook.com/bankombnz

Overdrafts