

# Overdrafts

Overdrafts come in different forms, but they all cost you more. Keeping an eye on your account balances before you spend money will help minimise unnecessary fees and charges.



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, 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

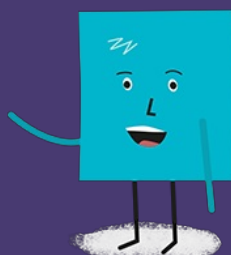
Banks can charge a fee and interest on overdrawn amounts, but this must be specified in the account’s terms and conditions. An example is the following: “When your account goes into unarranged overdraft or you exceed your arranged overdraft limit, you will be charged interest at our unarranged overdraft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

## How to 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.



Ensure you have enough money in relevant accounts to cover payments to avoid overdraft fees.