

# Overdrafts

1 Nov 2013

An 'overdraft' on an account gives a customer access to additional funds. An overdraft facility can be pre-arranged, but it might also be unarranged.

## Arranged overdrafts

An arranged overdraft is a borrowing limit which has been agreed between a banking service provider and its customer. As an example, a customer may have an agreement with their bank where they can have access to funds up to an additional \$500, after their balance has reached zero.

A customer with an arranged overdraft may also be able to go into unarranged overdraft if they exceed their borrowing limit.

## Unarranged overdrafts

An unarranged overdraft is where a customer withdraws money over and above either the available balance or the limit on their account without having an explicit agreement with the bank to do so. A customer may go into unarranged overdraft when they:

- have exceeded the limit of their arranged overdraft; or
- do not have an arranged overdraft, but have used up their account's available funds.

Banks may allow a customer to do this, but this is at the bank's discretion and is generally determined by a customer's account behaviour. 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 background.

Honouring transactions where a customer has run out of money can spare them the embarrassment and inconvenience that a declined transaction can cause. However, going into unarranged overdraft and incurring a fee and interest for doing so can be problematic for those on a tight budget.

## How to contact us

## Can I have an unarranged overdraft without my knowledge?

A bank can allow a customer to go into unarranged overdraft if this is disclosed in the terms and conditions that apply to the account. An example of such a clause is:

*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.*

## Will I be charged for an unarranged overdraft?

A customer is charged a fee for becoming overdrawn, as well as interest on the overdrawn amount.

If a bank wants to charge an unarranged overdraft fee plus interest on the amount overdrawn, it must be disclosed in the terms and conditions that apply to the bank account. An example of such a clause is:

*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.*

## What can I do to avoid going into overdraft?

First and foremost, keep a close eye on your account to ensure you know what your balance is before you spend money. Customers are responsible for ensuring they have enough money in the relevant account to cover any payments that may be deducted.

Mobile banking is one way to keep track of your available funds as you can check your balances wherever you are.

You can also ask your bank whether or not it is able to load a 'no overdraft' alert on your account. Make sure you understand how such an alert operates. Some banks may prevent transactions altogether if an account has insufficient funds. Other banks may not be able to stop some transactions (such as automatic payments) even with an alert in place, and fees may be incurred in such circumstances.

Alternatively, you can ask your bank if it offers a text alert service to notify you when your account balance is low. Even with these precautions in place, it remains your responsibility to be aware of your account balance at all times.

## How to contact us

## Case note

Mr G travelled overseas for a number of months. During his time away he withdrew funds from his savings account. On his return he discovered the account was overdrawn by \$1,000 because his bank had honoured withdrawals even though he had insufficient funds.

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

The bank offered Mr G two options for settlement of his debt:

1. deduct all interest and fees charged to date, provided Mr G made arrangements to make regular repayments towards the debt. However, fees and interest would then be charged on the remaining balance until the debt was repaid, or
2. 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 did not agree to either option and complained to our office. He felt 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.

Additionally, 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 for settlement of the debt to be reasonable in the circumstances. After considering our comments, Mr G accepted the bank's second option.

## How to contact us