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Banks under fire over rip-off overdraft fees: FCA probe 'could see rates capped'

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Overdraft charges could be capped after Britain's biggest banks introduced 'spookily similar' fees of around 40 per cent.

The Financial Conduct Authority (FCA) has written to the country's major lenders demanding they explain how these new rates were set.

Analysts said the clustering of fees by HSBC, Nationwide, TSB and Natwest at around 40 per cent could force the watchdog to cap charges at a lower rate.





The introduction of sky-high overdraft fees is an embarrassment for the FCA and its boss Andrew Bailey, who is due to take over as the next governor of the Bank of England in March

Demanding answers, the FCA said: 'There has been significant comment about many headline overdraft rates, and in particular that major banks have aligned overdraft rates around 40 per cent.'

The FCA has been in regular contact with the major banks and has written to ask them to provide evidence of how they have arrived at their pricing decisions.'

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But the introduction of these sky-high fees is also an embarrassment for the FCA and its boss Andrew Bailey, who is due to take over as the next governor of the Bank of England in March. The FCA's reforms of the overdraft market appear to have backfired, leaving around 8m borrowers worse off.

Martin Lewis, founder of Money Saving Expert, said the FCA intervention was 'a slap

on the wrist for the banks.

He added: 'It's an admission that the FCA's overdraft changes haven't worked entirely as it wanted, and now the regulator is baring its teeth.'

The FCA demanded last year that banks scrap unarranged overdraft fees and charge all customers who slip into the red the same amount. At the time, it warned: 'We will consider introducing a price in this market if rates increase significantly above our expectations.'

But banks responded with fees of around 40 per cent, with Lloyds charging up to 49.9 per cent. The FCA insists that seven out of ten customers with overdrafts are better off, but around 8m, are worse off.

Former pensions minister Ros Altmann said: 'The new overdraft interest rates are just wrong.'

The FCA wanted to address charges bank customers paid on unauthorised overdrafts, and its solution means banks are massively raising the costs of authorised overdrafts.

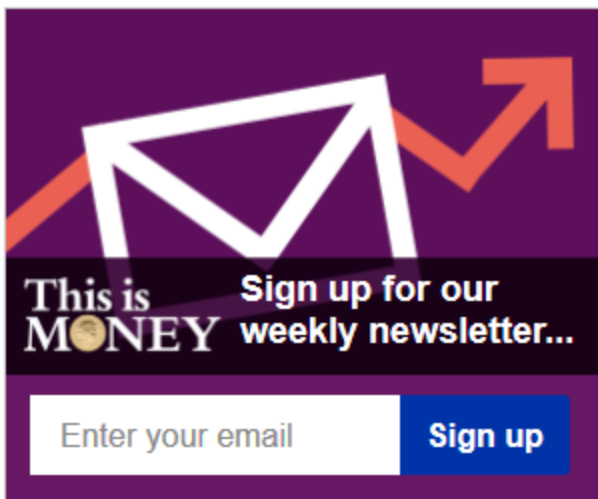
If it wasn't so egregious I'd think the banks were having a laugh.' Nationwide, HSBC, M&S Bank and First Direct have stated that they will charge all customers 39.9 per cent.

Lewis said someone with a £2,000 authorised overdraft could see their costs more than triple from about £180 a year to around £680.

Lloyds Bank has gone even higher, introducing a 39.9 per cent rate for most overdraft borrowers which for some could stretch to 49.9 per cent.

Sarah Coles of Hargreaves Lansdown said: 'The banks may have shot themselves in the foot by announcing sky-high arranged overdraft rates that bear a spooky similarity to one another.'

The FCA warned all along that if the banks didn't offer competitive rates, it could consider overdraft charge caps.' Tom Selby, senior analyst at AJ Bell, said: 'The FCA is clearly concerned at the significant negative impact its overhaul of lending rules



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will have on those with large arranged overdraft balances.

While the intention of the reforms was to help those hit with eye-watering daily charges on unarranged overdrafts – a substantial proportion of whom tend to be people from deprived areas – there has been something of a waterbed effect.

In the process of pushing down on unarranged fees, the costs faced by those in arranged overdrafts are set to balloon.

Millions of people in arranged overdrafts are now worried about their borrowing costs doubling overnight, potentially pushing many into a difficult financial position.'

The FCA said it wants lenders 'to take positive steps to help customers who may be worse off or in financial difficulties as a result of these changes'.

A spokesman said: 'We will be keeping a close eye on the market and we will act should we see continued harm.'