

The complaint

Mr M complains that HSBC UK Bank Plc lent to him irresponsibly on a credit card.

What happened

In January 2018 Mr M applied for a credit card and bank account with HSBC. Based on the checks it completed the bank offered a credit limit of £3,000 on the card, and an overdraft with the bank account. Mr M opened the credit card and bank account, but declined the overdraft facility.

By 2019 Mr M was experiencing difficulty in maintaining the payments on all his borrowings – and approached a debt charity for support. HSBC froze interest on the account and agreed to the monthly amount suggested as part of Mr M's debt management plan. Mr M says he wasn't able to maintain the plan, and broke it soon after it was put in place.

Mr M later complained to HSBC that the lending had been unaffordable. He argued that had the appropriate checks been carried out at the time of application, they would have highlighted he had significant borrowings elsewhere. HSBC's response to Mr M's complaint said it thought proportionate checks had been carried out – and based on the information he provided at the time, along with data held by the Credit Reference Agencies (CRAs), the lending had been deemed affordable. Mr M didn't agree, so referred the matter to our service for review.

An investigator here considered everything and thought the complaint should be upheld. In his view, HSBC's checks of Mr M's credit file ought to have showed he was already struggling with lots of debt elsewhere – and so any further lending wouldn't be affordable. HSBC didn't accept they'd done anything wrong, but as a gesture of goodwill offered to refund all of the interest charged on the account. The bank didn't agree to remove any adverse credit file data about the card.

Mr M didn't accept HSBC's offer, and said his wider circumstances meant the bank should now right off the balance and remove all entries about the account from his credit file. As no agreement could be reached, the case was passed to me for a final decision on the matter. I issued my provisional findings, upholding the complaint. I've copied below the part of that decision which detailed my rationale:

"We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website. So I won't repeat it here. But bearing that all in mind, the questions I need to answer in order to decide what's fair and reasonable in the circumstances of this complaint are:

- *Did HSBC complete reasonable and proportionate checks to satisfy itself that Mr M would be able to afford to repay any borrowing on the card in a sustainable way?*
- *If not, would proportionate checks have shown Mr M could afford the credit?*

The rules and regulations in place when the credit card account was opened required HSBC

to carry out a “borrower-focused” affordability assessment, to check Mr M was able to sustainably make any repayments due under the agreement. It wasn’t enough for the bank to only consider the likelihood of it getting its money back, it had to be satisfied Mr M would be able to meet repayments out of his income without undue difficulty. That meant, for instance, without having to borrow elsewhere or renege on existing obligations. Checks had to be “proportionate” – and what constitutes a proportionate affordability assessment depends on a number of factors, including the amount being lent and a customer’s particular personal circumstances. The lower a customer’s income and the higher the amount due to be repaid (particularly when considered as proportion of their income) could be indicators that more thorough checks might be needed before any borrowing was approved.

The outcome of HSBC’s affordability check was that it opened the credit card account with a £3,000 limit – though £2,000 more borrowing was offered, in the form of an overdraft (which Mr M turned down). The application record shows, in order to make that decision, HSBC asked Mr M about his date of birth, annual income, and employment details. It also reviewed the information held by the CRAs. There’s no evidence the bank asked him about his other outgoings – but it knew from his bank account application that he lived at home (and so didn’t have rent or mortgage repayments to make).

Using the full available credit limit would be a considerable commitment for Mr M, as it represented just under a third of his stated gross annual income. But Mr M had said he was employed full time with a gross annual income of £10,000, which would equate to less than minimum wage. So HSBC knew (or ought to have known) the information given on the application was unlikely to be correct.

I’ve also looked at Mr M’s credit file, to see what other lending HSBC would have seen he had in January 2018, and to get an idea of his overall level of indebtedness. Mr M’s credit report shows he had seven credit cards, three loans and a catalogue shopping account at the time. It also shows lots of missed and late payments throughout the year leading up to this credit card application. Some of that borrowing was taken out towards the end of 2017 and may not have shown up yet on Mr M’s credit file when HSBC did its checks – but most of it would have been there.

I appreciate HSBC has supplied evidence that when it aggregated the information on Mr M’s credit file it didn’t return any concerns. I’m not sure what went wrong with HSBC’s check of the data held with the CRAs, but I find that it clearly tells the story of a spiralling debt issue. Specifically, it would have showed Mr M had significant active non-mortgage lending that he wasn’t managing well. So, while HSBC would have had little idea about Mr M’s actual disposable income, it ought to have picked up on the indicators from his credit file that he couldn’t comfortably afford any more borrowing. That means I consider the checks the bank said it carried out were proportionate, they just should have returned a different result – and the credit card account shouldn’t have been approved.

HSBC agreed to refund the interest and charges applied to the account – and following that calculation there was still a balance outstanding. So I’ve gone on to consider whether it would be fair for Mr M to repay that remaining amount in the circumstances – and whether there’s anything else HSBC should do to put things right.

The debt management plan put in place at the end of 2019 was quickly broken, and Mr M hasn’t been able to afford to make even token payments towards the account since. The latest income and expenditure assessment he sent to HSBC showed his outgoings exceeded his earnings, without factoring in any contributions towards his debts. Mr M has confirmed that’s still the case now, and I haven’t seen any indications that situation is likely to change anytime soon. He works full time, lives at home, doesn’t have any assets he could sell, and there’s also very little opportunity to reduce his outgoings. As the chance of HSBC

recovering even a small proportion of the debt appears to be extremely low, and it shouldn't have been approved in the first place, I don't consider it would be fair for this to be hanging over him for years to come. So, I find the fairest outcome in the circumstances would be for the bank to write off the remaining balance – and remove all record of the account from his credit file.

I've thought about whether any additional compensation is due, and I've decided it isn't. I don't doubt what Mr M has said about the extra stress he endured from being in financial difficulty. I also acknowledge that HSBC played a part in that through the unaffordable lending it approved. But by the time this account was opened, the level of borrowing was already unsustainable. This lending might have tipped things over the edge for Mr M, but HSBC isn't responsible for his situation having already reached that tipping point. I've also considered that a significant proportion of the limit was spent on buying electronics that were then sold (at a loss). In the long term that only served to prolong an untenable situation – but in the short term that provided him with some funds towards living expenses, and I can't see where else those would have come from. So, on balance, I consider writing off the remaining debt, and removing all record of the account with the CRAs, to be the fair resolution here."

Both Mr M and HSBC responded to say they accepted my provisional findings, and had nothing further to add.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Given the responses to my provisional decision, and there being no further information for me to consider, I see no reason to depart from the outcome I reached. So, for the reasons set out above, I'm upholding Mr M's complaint.

My final decision

My final decision is that I uphold Mr M's complaint about HSBC UK Bank Plc, and direct the bank to:

- write off the remaining balance on the credit card account, once any interest or charges applied to it have been refunded; and
- remove any record of the account with the CRAs.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 December 2022.

Ryan Miles
Ombudsman