

Complaint

Miss S has complained that HSBC UK Bank Plc (“HSBC”) irresponsibly provided her with a personal loan.

Background

Miss S has also complained about having been provided with an overdraft and credit card. But we’ve already explained that we’re looking at that complaint separately. And this complaint I only looking at Miss S’ complaint about her loan.

HSBC agreed to provide Miss S with a loan of £3,000.00 in November 2019. After this loan was drawn down, Miss S decided she wanted more funds and applied for a loan of £10,000.00. The £10,000.00 was approved the day after Miss S’ initial application and some of the proceeds were used to repay the £3,000.00 owing on the previous loan. As the first loan was cancelled during the cooling off period, this decision is only looking at the second loan.

One of our investigators looked at this complaint and thought that HSBC shouldn’t have provided the loan. HSBC didn’t agree with our investigator and so the complaint was passed to an ombudsman for review.

My findings

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

We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Miss S’ complaint.

HSBC needed to make sure that it didn’t lend irresponsibly. In practice, what this means is HSBC needed to carry out proportionate checks to be able to understand whether Miss S would be able to repay what he was being lent before providing any credit to him. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly. I’ve kept this all in mind when having looked at Miss S’ complaint and having done so I’m upholding it.

I know that there has been some discussion about the address history information Miss S provided HSBC with at the time of her applications and that HSBC appears to have placed

significant weight on the third-party data it received as a result. However, I'm mindful that irrespective of any address information HSBC obtained from Miss S, its records nonetheless suggest that it refused to provide a current account with any lending facilities in 2018.

HSBC refused to provide Miss S with a fully functioning current account at this stage because the information it obtained showed that Miss S had county court judgements and a significant amount of existing external debt. And so HSBC was only prepared to offer Miss S a basic account. I acknowledge that there's an argument for saying that this in itself was concerning and given the relatively short period of time until the two loan applications enough to say that they should have been declined – especially as the amount being advanced for this loan wasn't insignificant. But even if this application shouldn't have been automatically declined, I do think that the information HSBC already had about Miss S required extra care to be taken here.

And I think that if more care had been taken here, HSBC would have discovered that Miss S was already in a cycle of unsustainable debt. She owed significant amounts to mainstream, high-cost and payday lenders. Miss S was even in debt to friends and family too. Further enquiries would also have shown that the reason Miss S was in so much debt was because she was gambling excessive amounts that she simply couldn't afford. In these circumstances, it ought to have been apparent that Miss S was in no position to repay what she owed, let alone take repay any further borrowing without borrowing further or suffering significant adverse consequences.

Bearing this in mind, I'm satisfied that HSBC shouldn't have provided Miss S with an overdraft or credit card in November 2019. In reaching my conclusions, I've taken into account what HSBC has said about Miss S' failure to provide all of her address history and not wanting to exclude her from accessing mainstream credit. But notwithstanding any issues with Miss S' address history, I'm satisfied that Miss S' previous application history with HSBC was enough to warrant further enquiries here. And these enquiries would more likely than not have shown that Miss S was in no position to repay any further credit, no matter who the lender was. And that HSBC shouldn't have lent to her.

So I'm satisfied that HSBC's decision to provide Miss S with a substantial amount of additional credit in the circumstances it did meant that it increased Miss S' indebtedness in a way that it ought to have realised was unsustainable or otherwise harmful.

As this is the case, I think that HSBC treated Miss S unfairly. Miss S is being expected to pay additional interest and charges on credit she shouldn't have been provided with in the first place. So I'm satisfied that she lost out because of what HSBC did wrong and that it needs to put things right.

Fair compensation – what HSBC needs to do to put things right for Miss S

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Miss S' complaint for HSBC to put things right by:

- removing all interest, fees and charges applied to Miss S' loan from the outset. The payments Miss S has made should be deducted from the £10,090.00 she was originally lent. HSBC should treat any payments made if and when the £10,090.00 has been cleared as overpayments. And any overpayments should be refunded to Miss S along with 8% simple interest †;
- contacting Miss S and notifying her who has ownership of her account in the event an outstanding balance remains and HSBC has sold the balance on to a third-party;

- removing any adverse information recorded on Miss S' credit file as a result of this loan should no outstanding balance remain.

† HM Revenue & Customs requires HSBC to take off tax from this interest. HSBC must give Miss S a certificate showing how much tax it has taken off if she asks for one.

I'd also remind HSBC of its obligation to exercise forbearance should an outstanding balance remain after all adjustments have been made to Miss S' account and it's the case that she is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Miss S' complaint. HSBC UK Bank Plc should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 28 February 2022.

Jeshen Narayanan
Ombudsman